PRINCIPLES
OF
RETAILING

BY

CLARE WRIGHT BARKER, M.B.A.
Professor of Marketing and Merchandising
Indiana University School of Business

AND

IRA DENNIS ANDERSON, M.B.A.
Assistant Professor of Marketing
Northwestern University School of Commerce

SECOND EDITION
SIXTH IMPRESSION

McGRAW-HILL BOOK COMPANY, INC.
NEW YORK AND LONDON
1941

PRINCIPLES OF RETAILING

PRINTED IN THE UNITED STATES OF AMERICA

PREFACE TO THE SECOND EDITION

Retailing is a rapidly changing field, one where institutions and applications of principles are never static The rise of the supermarket, for example, is one change which has occurred among retailing institutions since the first edition went to press The stores throughout the country have made new applications of retailing principles which have necessitated the rewriting of nearly all chapters in the text

The footnotes of the first edition have been replaced largely by more recent references, and the Sixteenth Census of the United States has provided new statistics that are especially important for Chapter II.

The authors appreciate the comments and suggestions which have come from teachers and students who have used the first edition of the text and have tried to incorporate the suggestions in the revised edition.

CLARE WRIGHT BARKER,
IRA DENNIS ANDERSON

INDIANA UNIVERSITY,
NORTHWESTERN UNIVERSITY,
September, 1941

PREFACE TO THE FIRST EDITION

The purpose of this book is to give the student of retailing a general survey of those principles which govern successful store management. The first two chapters, which are of an introductory nature, give a very brief historical background and an outline of present-day types of retail institutions.

After this introduction the book discusses the various phases of retailing in the order in which they might arise in the average store. First there must be found a location for the store; then there must be a building and fixtures; the form of organization must be determined, the wants of the prospective customers must be ascertained; merchandise to meet these wants must be purchased, received, and priced Succeeding chapters take up the other problems which present themselves to the retailer as he conducts his business.

Rapid changes have come about in the distribution of merchandise. Especially is this true in the climax of the distributive process—the retailing of merchandise—which places these goods in the hands of the ultimate consumer. Neither the manufacturer nor the wholesaler can be successful unless the retailer succeeds in selling the goods which the former have manufactured and distributed; thus, we find the manufacturer and wholesaler, as well as the retailer, vitally interested in studying the principles underlying successful retailing. The bank and investment house dealing in the securities of retail establishments, the accountant who audits the store's books, the advertising executive or merchandising counselor who helps the manufacturer plan his sales campaign, and various trade association officers all need a knowledge of the principles of retailing. Many college students, both men and women, are preparing themselves to enter various phases of retail merchandising All the above-mentioned students of retailing, whether in college or in business, can study the principles of retailing in this book

The footnotes throughout the book give references to current business literature In some cases these show the source of the

material in the text, in other cases they show where additional reading material can be found on that particular subject, or again they may give supporting data for a statement in the main body of the book. In some instances the authors have thought it desirable to include as footnote material actual examples of the current practices and methods of retail stores. It is hoped the references to books and current periodicals will lead the student to make use of these sources for additional reading in connection with each chapter of this book.

The authors wish to thank the various retail stores, publishing houses, trade publications, and trade associations for giving permission to use their statistics and material from their publications. The authors also appreciate the helpful suggestions that have come from their students who have studied this book in mimeographed form during the last six years.

CLARE WRIGHT BARKER,
IRA DENNIS ANDERSON.

INDIANA UNIVERSITY,
OHIO WESLEYAN UNIVERSITY,
March, 1935.

CONTENTS

PRINCIPLES OF RETAILING

CHAPTER I

THE RISE OF RETAILING

The Heritage of Retailing.—The romance of retailing runs through the entire story of the human race. From the very beginnings of recorded history and even back into those ages for which only excavations give us a record, we find that men have traded with one another the necessities and luxuries of life. And through it all there is the same objective—the same struggle of mankind better to satisfy his wants. It is this goal, the more complete satisfaction of our wants, which has led us on through countless centuries of business history. The shopkeepers of ancient Rome, the peddlers of the Middle Ages, and the operators of today's supermarkets—all are a part of the same family tree, for each in his own way has studied the desires of mankind and served mankind in fulfilling them

In spite of this noble record of service, the path of the retailer has not always been pleasant. It is one that starts on a humble and despised plane Scorned by the leaders of the state and looked down upon by priest, by scholar, and by soldier, the early retailer of the ancient world occupied a lowly position. The scholar mocked the shopkeeper as "weakest in body and unfit for any other work" and looked down on the retail trade "which is justly censured for it is unnatural and a mode by which men gain from one another." The priest proclaimed, "As a nail sticketh fast beneath the joinings of the stones, so doth sin stick close between buying and selling." As the centuries passed, however, the role of the retailer moved toward a higher level. Miriam Beard in her most interesting book, *A History of the Business Man*,[1]

[1] Beard, Miriam, *A History of the Business Man*, The Macmillan Company, 1938.

chronicles this steady rise, presenting dramatic scenes of the merchant as he has played his part on the pages of history. To comprehend better the value of retailing to the world through the centuries, we shall now study the function that the retailer performs for us today.

The Role of the Retailer.—We are so accustomed to receiving the benefits of our retailing institutions today that we take these benefits and services for granted. Seldom do we stop to think what an important part the retailer plays in the lives of each of us At a time of widespread railroad strikes, which tied up railroad services, the public was rudely awakened to its daily dependence on this means of transportation. If such a thing were to occur to the retail stores of this country, there would quickly come to all of us a similar realization that we are dependent upon our retail stores for the satisfaction of our daily needs.

A doctor desires a new suit of clothes for Easter.[1] However, he does not know of a factory making men's clothing When he does learn of one, he does not know whether it will sell him a suit at the price that he desires to pay or whether it makes clothes of a style that he would like. When he does finally get this information, he hesitates to send his money to the factory until he receives the suit and yet is afraid his order will not be filled unless it is accompanied by the money, for the factory does not know him. He also has difficulty in getting his measurements and fears that, because these may not be accurate, the suit will not fit when he finally does get it. Nor is he sure of the difference in kinds of cloths that might be used; also, he doubts if he can judge the quality of the cloth and that of the workmanship in the suit until after he has worn it. He is a specialist in his line, that of medicine; yet he is not prepared to satisfy his clothing needs without the assistance of someone who is a specialist in that line So he goes to a retail store and lets the clothing merchant show him a suit, give him style advice, make the necessary alterations, send the suit to him ready to wear, and, no doubt, extend him credit. All this takes only half an hour or less of the doctor's time and relieves him of all the worry and uncertainty involved in the first process.

[1] In general this method of illustrating the function of the retailer follows that used by Ruth Leigh in *Elements of Retailing*, pp. 1–3, D. Appleton-Century Company, Inc.

It is only when we try to visualize a world without the retailer that we realize how much he does for us. Before we become aware of our own needs, he has foreseen them and has searched the world to get the things that will satisfy them. He has anticipated the number of each style, size, and quality of product that will be wanted and has placed his order weeks or months in advance. He has his merchandise on display by the time the consumer realizes his need He is ready to give expert advice and to help the consumer make a wise selection Today, the retailer stands as the connecting link between the manufacturer and the consumer. His importance in that chain is shown by the statement that the retailer is the neck of the bottle of distribution. The high place the merchant occupies today in our distributive system is not one that has been easily acquired. As we have said, it is the result of an evolution that has been going on for centuries, an evolution whose beginnings go back to the dawn of history itself and whose unfolding "is very largely a story of a people's progress" The present position of the retailer has been won by a recognition of the services he renders to us all. Having looked at the functions of retailing, we shall turn now to ancient times and trace briefly the rise of retailing.

The Origin of Retailing.—The need for trade grew out of the division of labor. The primitive family usually produced all the things they required. But as one individual or family increased in skill in the production of a certain article and another became skillful in the production of another article, each had a surplus of his own. In order to dispose of his own surplus and to get some of the other man's goods that he desired, trading was necessary. This early retailing was carried on by means of barter and trade. One man exchanged some of his furs for the beads or food of another man. Thus, these men were usually both manufacturer and retailer. There is much evidence of widespread trade among the American Indians before the coming of the white man.

It was not until a later time that a separate class arose to spend its entire time in transferring goods from the maker to the consumer. Barter was an adequate method of trade in primitive society; but as life became more complex through increasing division of labor, it was necessary for someone to act as an intermediary between producer and consumer. Often a man would

expose for sale in the market or bazaar his own handiwork and that of others as well which he had acquired by trade or which had been left to him to sell.

Until some means of transportation could be found, retailing could never become important The early peddler with his trinkets had to go from tribe to tribe and from village to village either on foot or by donkey. In the Orient the camel was used and great caravans loaded with silks, spices, and other goods were sent by the traders from one section to another. Much of this trading consisted of luxuries, which no doubt partly accounts for the hostility of the early Christian church. One of the early fathers of the church, St. Chrysostom, said that the same person could hardly be both Christian and a merchant.

Ocean-going boats carried the trader from one shore to another. Beginning about 3000 B.C and continuing for almost two thousand years, the Cretans carried on trade in the Mediterranean lands [1] Not a great deal is known of this civilization, however. The Phoenicians followed the Cretans as the traders of this region. Tyre[2] and Sidon then became the great market cities of the world. Their caravans and boats reached from India to England and down into Africa. It was in the fifth and sixth centuries B.C. that we find the Phoenicians trading their wares in the Scilly Isles and on the coast of Cornwall for the English tin. Carthage was founded by the Phoenicians and became even more powerful than its parent cities of Tyre and Sidon, lasting until 149 B.C. when it was destroyed by Rome.

During the time of the Roman Empire, shops became very numerous in Rome as well as in other cities of the empire. In Rome itself were various shopping centers. Most of the shops were small and carried on the outside a sign to designate the type of merchandise. One excavation has revealed a nine-story "department store," whose floors were connected by steep stairways. Apparently the more expensive articles were sold on the lower floors, and the cheaper merchandise was on the higher floors. The exertion of the long climb was, no doubt, the

[1] For a more detailed discussion of the origin of retailing, see PAUL H. NYSTROM, *Economics of Retailing*, rev. ed., Vol. I, Chap. 3, The Ronald Press Company, 1930.

[2] The Bible refers to Tyre as "the crowning city, whose merchants are princes, whose traffickers are the honorable of the earth."

reason for putting the "bargain basement" on the top floors of the store. The fall of the Roman Empire marked also the collapse of the forms of retailing that had flourished during Roman supremacy.

Markets and Fairs.—The "Dark Ages" in retailing lasted for several hundred years after the fall of Rome. The chief means of retailing during this time was the peddler. The lack of central authority, the great number of wars, and the heavy taxes and duties levied on traders discouraged those who tried to engage in trading. During the tenth century, trade began to revive in a number of Italian cities.

In England the peddler was the chief means of selling merchandise until after the Norman Conquest. He carried his store on his back and was nimble of wit in selling his articles at a high price to the credulous villagers Dishonesty in trading was not uncommon, and so people had to be very careful in every exchange Gradually, during this period, legal and fiscal restrictions on trade were being lessened. In Magna Charta, we read, " . . . Merchants shall have safety to go and come, to buy and sell, without any evil tolls, but by ancient and honest customs."

Fairs and markets assumed their greatest importance during the thirteenth century when it is estimated that there were over three thousand. The early markets and fairs had a religious foundation. At the feast days of the saints, people gathered to worship at the church, and, at these religious festivals, trading sprang up. Thus, it became customary for people to gather at the church for the exchange of goods. It was said, " . . . There is no great festival without a fair, no fair without a festival." Most fairs and markets were held by virtue of royal grant. In making the grant, the king promised peace to those attending the fair. The church likewise helped give security to life and property. In return for this protection, both the church and the crown began to collect a toll or tax from those selling at the fair. There were a number of interesting laws and regulations concerning the early markets and fairs. One provided that no new fair could start up within 7 miles of a previously established fair. No selling could be carried on before the fair was officially opened or after it was declared closed. False rumors could not be spread with the intent of influencing the price of any merchandise, nor could force or threats of force be used to prevent people from

bringing goods to a market or fair for sale. Forestalling,[1] regrating,[2] and engrossing[3] were usually prohibited.

The fairs differed from the markets in that they lasted much longer, were larger in size, and, consequently, were fewer in number. To these fairs often came merchants from all over the country and even from foreign countries Sometimes they bartered their goods for other goods; sometimes they exchanged them for gold and silver. Later the fairs became more places of amusement than trading centers. Those who were unable to go to the fairs and markets were served by the peddlers who secured their merchandise at the fairs.

Some of the medieval fairs survived to modern times and draw buyers from different parts of the world.[4] Among these were the fairs at Leipzig, Lyons, and Nizhnii Novgorod. The Leipzig fair was first held about 1170. That at Nizhnii Novgorod at the juncture of the Volga and Oka rivers was one of the most glamorous of all fairs While its early history is not known, there are indications that it started during the fourteenth century and continued as an important fair until the fall of imperial Russia.

Shops.—Before the close of the twelfth century, we read of the "stall," a wooden framework in front of the house, upon which goods might be displayed for sale. At times, these were on hinges so that, when not in use, they might be let down against the wall. Soon there developed the shop. The early English shopkeeper had his home and his shop under the same roof. Ordinarily, the front part served as shop or salesroom and the back part was for living quarters.

A writer of the time ascribes the extravagance of that period to the fact that display windows made such a show in the eyes of those passing that they could not help gazing and buying displayed knickknacks. In order to identify the kind of shop, appropriate signs were put out in front. As an additional incentive to buy, someone was kept outside the shop to cry the wares contained within.[5]

[1] Buying up goods before they reached the market.

[2] Reselling goods at the market.

[3] Cornering goods on the market.

[4] *International Fairs and Expositions*, U.S. Department of Commerce, 1929.

[5] There was also the tendency for shops selling the same type of merchan-

There was much higgling over price, and one was likely to pay too much for an article if he were not a good trader; yet the shops and shopkeepers were on a higher plane than the early peddlers so far as honesty was concerned. Thus the shopkeepers of England became gradually a substantial class, although they were not looked up to socially. Their importance is indicated by the fact that, in a later period in English history, Napoleon is said to have referred to the English as a "nation of shopkeepers."

During the fourteenth and fifteenth centuries in most of the English towns there were formed mercantile guilds. These were composed of the people who were trading or selling in the town. The guilds attempted to regulate trade and to lessen competition. The term *merchant* at this time had a special meaning. A merchant was usually an importer of merchandise and carried on his business on a large scale so that he resembled a wholesaler more than he did a retailer. Some merchants became quite prominent, Dick Whittington becoming Lord Mayor of London.[1]

In 1570, Sir Thomas Gresham constructed in London the Royal Exchange This building housed over one hundred shops or booths which were leased out to individual retailers for the sale of different types of merchandise. Similar types of building were soon constructed in the other cities of England.[2]

American Trading Posts.—In America the retailer has reached the highest levels in the business and social life of the nation. But here, too, he had a humble origin. From the very beginning, the whites traded trinkets with the Indians in exchange for their furs We are told that Manhattan Island was bought from the Indians for $24 worth of beads and such goods. The Pilgrim Fathers proved good retailers, a phase of their life usually overlooked They brought in goods from England and with them bought furs and corn from the Indians. Soon they established posts where the Indians could come and trade. Similar trading posts were common along the entire frontier and continued in existence as the frontier moved westward, disappearing only when the frontier itself vanished. To these the Indians and white trappers brought their pelts and exchanged them for shot, powder,

[1] The portrait "The Merchant" by Holbein is of George Gisze, well-known merchant of the sixteenth century. Surrounding the merchant are the various accessories he used in his trade.

[2] NYSTROM, *op. cit.*

food, whisky, and the other things that they desired. As the frontier moved on, many of the trading posts developed into general stores supplying the white settlers with merchandise, for the Indians and trapper trade had left with the frontier. The peddler played a prominent part at this time in serving the villages and crossroads. First the Yankee peddler, then the Jewish peddler, roamed the country roads with his "notions."[1]

The Early General Store.—As the frontier and the trading posts passed on, the villages and crossroads that arose in their wake had their general stores—characteristic American institutions. Here the storekeeper or retailer kept a general stock of merchandise.[2] Because his customers were few and he had to carry the various necessities that they demanded, his stock of any one commodity was not varied. Lack of variety was also due to the storekeeper's limited capital and to the fact that he bought only once or twice a year. Fortunately for him, people's wants were not great, and so the customers were satisfied with the limited stock he had in his store. Also, it might be said that because they saw so few things in the store, their wants in turn were few. As a community's income grew greater, the general store increased in size and variety of goods handled, and its customers acquired new desires. The luxuries of one age became the necessities of the next.

The general stores carried calico and other cotton and woolen goods, notions, household and farm hardware, staple groceries, stationery, and medicines commonly used in the home at that time. Many of them carried whisky and rum, as well. To this store the farmers and townspeople looked for satisfaction of their needs. Often unable to pay in money, they would bring in their produce to exchange for the storekeeper's goods. Having their wool, wheat, meal, maple sugar, etc., in payment of purchases, the storekeeper had to dispose of these before he could purchase a new stock of merchandise. So the early American storekeeper not only served as a retailer but also often marketed much of the farmer's produce as well. This method of exchange

[1] Interesting descriptions of the activities of these peddlers are found in an unpublished thesis by Edward Luke Hutton, of Indiana University, *The Yankee Peddler in Early America*, 1941, and in Richardson L. Wright's *Hawkers and Walkers in Early America*, J. B Lippincott Company, 1927.

[2] ATHERTON, LEWIS E., *The Pioneer Merchant in Mid-America*, pp. 37–46, The University of Missouri Studies, 1939.

helped the retailer to realize, possibly better than he does today, the relationship between his own prosperity and that of the agricultural world. It was often necessary for the general merchant to extend long-time credit to his customer, who would settle his account at the store once a year.

From the wife of one of these early general merchants, we hear the following: "Many a hot summer night when everyone else was asleep, I would go to the window and look into the western heavens to see if there was any sign of clouds While the stars were beautiful, yet a cloud would have been more welcome for it would mean rain and that would mean crops for the farmers. Then they would come to the store and buy our merchandise."

The average general storekeeper made an annual trip to the city to secure his stock of goods for the next year Before the advent of the railroad or before it had reached his town, this journey was a tiresome and often a dangerous one One has only to read of the frightful conditions of the early roads to realize the reason for this. Having purchased his year's supply of goods, he had to get them home by wagon, in many cases

If an old-fashioned general storekeeper could visit a present-day retailers' convention and hear the discussions of allocating of expense, unit-control records, and personnel problems, he would turn away in dismay, for he never heard of such questions. Scientific retailing had not yet arisen Nor did he have to contend with fickle fashion. Compared with today, one year was very similar to the next one. It was easier then to know what goods would be wanted; for trade was regular, and there was not present the constant possibility of sudden changes in fashion

However, storekeeping then had phases with which the retailer of today does not deal The store was post office as well, and the retailer had to send and distribute the village mail. The general store played an important part in the social and political life of the country. It served as the community center and club Great questions of state were discussed and settled around the stove in the winter and on its porch in the summer. This, together with the extension of long-time credit, constituted the "services" which the store rendered, and explains why the general store shared with the church the position of being heart of the town. Though now largely an outgrown institution, it served

its community admirably during its time. Henry Ford, it is reported, once said in speaking of a general store, "This store represents the whole pioneer epoch in the history of this country. What could be more intimately bound up with the lives of the people than a store where they procure the necessities of everyday life?"

The Modern General Store.—In recent years, the automobile and better roads have caused a shifting of retail trade centers by making it possible for people to go much greater distances to shop.[1] This has led to a decline in the retail business of the small town and the crossroads where formerly the general store flourished In spite of this, there are some large and prosperous general stores doing an annual business of several hundred thousand dollars in sales.[2] This once typical American institution has survived, in a number of cases, the world of yesterday. Many of the modern general stores have adopted up-to-date methods of retailing and have forged ahead in the face of competition Through rendering service to their farming communities and giving good values, they have built up a large and loyal clientele. The average general store of today finds its best field in the sale of convenience merchandise For shopping and specialty goods, people are more inclined to drive to a near-by city where they can purchase in larger stores carrying more complete stocks of merchandise. As a rule, there is no local competition between the general stores and chain stores, for the total purchasing power at these country points is not large enough to attract the chains. There is, however, a certain kind of competition between the two, for the small-town general store finds some of its trade being taken away by the chains in the larger near-by towns. The general store has an advantage in its location close to its customers and the personal relationship that exists between the owner and his customers.

Pathfinders of Modern Retailing.—The regularity of trade in our early history was not conducive to initiative or enterprise on the part of the storekeeper. By the close of the Civil War the retailers were in a rut; yet people were beginning to demand

[1] MITCHELL, ROBERT V., "Trends in Rural Retailing in Illinois, 1926 to 1938," *University of Illinois Bulletin* 100, 1939.

[2] A description of one such store appears in "What Makes Garver's Tick?" *Retail Executive*, Oct 25, 1939, p. 2.

better retailing service. They wanted a greater variety of merchandise from which to choose. Fashions began to change more rapidly, a fresher stock on the retailers' shelves being thus required, and the level of prices was falling If the goods stayed too long on the retailers' shelves, their worth showed a decrease due to the slowly falling market price in addition to the usual depreciation. Although these conditions called for a change on the part of the retailer to keep abreast of the times, he was slow to adjust himself to the new conditions.[1] Out of this era there evolved several new types of retailer, men who pioneered along new paths in retailing.

Marshall Field[2] was one of the outstanding men who helped usher in this new era. He was born in 1830 in New England, the son of a farmer. When in his teens, he got a job clerking in a general store. The merchant soon decided that young Field would never succeed in the retailing business and sent him back to the farm. Later he got a job in another general store and after a few years went out to Chicago where he secured a position with a wholesale house He was so successful at this time that he became a partner in the firm. In 1865, he became a partner in the retail store of Field, Palmer, and Leiter. The business prospered in spite of the destruction of the store in 1871 by the

[1] As we read the following rules of the eighties and then think of present conditions, we have an indication of the changes that have come

Rules for Employees

1. Store must be open from 6 a m to 9 p.m the year round.

2 Store must be swept; counters, shelves and show cases must be dusted, lamps trimmed, filled and chimneys cleaned, pens made; doors and windows opened; a pail of water and a bucket of coal brought in before breakfast

3. The store must not be opened on the Sabbath unless necessary and then only for a few minutes

4. The employee who is in the habit of smoking Spanish cigars, being shaved at the barber's, going to dances and other places of amusement will assuredly give his employer reason to be suspicious of his integrity and honesty

5. Men employees are given one evening a week for courting and two if they go to a prayer meeting.

6 After fourteen hours in the store, the leisure hours should be spent for the most part in reading.

[2] The story of his store is given in S. H. Ditchett, "Marshall Field and Company, The Life Story of a Great Concern," *Dry Goods Economist*, 1922.

Chicago fire and the panic of 1873 which soon followed. In 1881, Leiter retired from the firm, and it was reorganized under its present name of "Marshall Field and Company." The business continued to grow as Chicago grew, and today it is one of the three largest department stores in the United States.

John Wanamaker[1] was born in 1838. His first retailing job was in a clothing store in 1856. Out of his meager salary, he had saved enough by 1861 to open his own clothing store in Philadelphia, which he called "Oak Hall." In 1877, he started his department store in that city, where he pioneered his one-price-to-all policy. Not until 1896 did he enter New York by buying the A. T. Stewart store. Through his whole life, he was a consistent advertiser. It is said that out of his first day's receipts of \$24.67 he spent \$24 for the next day's advertising.

Aaron Montgomery Ward as a young man secured a position in a general store in St. Joseph, Michigan, and in three years' time became its manager. In 1865, when twenty-two years old, he went to Chicago where he secured a position with Field, Palmer, and Leiter. Later, he became a traveling salesman for another firm He started his own mail-order business in 1872. The first catalogue was of eight pages and was sent out in 1874. Before that, he had used one-page handbills. George R. Thorne, his brother-in-law, became associated with him in the business soon after it was started. Through careful merchandising and a liberal return policy, public confidence was gradually built up and the business grew to large proportions.

Frank W. Woolworth,[2] the founder of the great 5-and-10-cent chain, was born in 1852 in New York state. His first attempts at securing a retail job were not successful. Even after getting into retailing work, he was not always successful. One store in which he worked tried out a 5-cent line which proved very successful. Believing in this type of merchandise, Woolworth started his own 5-cent store in Utica, New York, but this store failed. He tried again and opened another store in 1879 in Lancaster, Pennsylvania. This store prospered and became

[1] The story of his life is told by Joseph H Appel, *The Business Biography of John Wanamaker, Founder and Builder*, The Macmillan Company, 1930.

[2] A popular version of the origin and growth of the Woolworth business, called "Dime Store," ran as a series in the *Saturday Evening Post*, beginning in the Feb. 3, 1940, issue.

the mother store of the great Woolworth business now known as the F. W. Woolworth Company.

The Life of a Retail Store.—Before we turn to the study of other types of retail stores we might consider briefly the possibility of success for one entering this field.[1] If we should decide to open a store, what are the chances of our succeeding in this venture? As one means of determining this, we might look at the past experience of others in the field.

Various studies[2] have been made of retail mortality; that is, studies of how long stores live. The life of the store is usually defined as the time it exists under one ownership. Mr. Jones may start the Jones Grocery Store in a certain store building. After a couple of difficult years, he becomes discouraged and finally finds a person who now has the idea he had a couple of years ago. So Mr. Smith buys out whatever equity Mr Jones may have left in the business, and it now becomes the Smith Grocery Store, operating with the same merchandise in the same building. However, the life of one store, the Jones Grocery Store, has ended and the life of another one, the Smith Grocery Store, has begun.

One such study has shown that the average life of a retail store is less than three years[3] The length of life of different types of independent single-line store varies Thus grocery stores, garages, and restaurants have the shortest span of life, and drug

[1] NYBERG, ARVID H, "So—You're Going to Open a Store," *Men's Wear*, Feb. 7, 1940, p. 22. DEAN, JACK, "Nope—Don't Want to Open a Store," *Men's Wear*, Mar. 20, 1940, p. 46

[2] For a list of such studies see *The Journal of Marketing*, July, 1941, p 22

[3] "The analysis of longevity of all firms starting business in 1930 revealed some significant information. It was found that one-fourth, 26 8 per cent to be exact, of the firms which entered business in 1930 were still operating under their original ownership at the end of 1937. One-quarter of these firms disappeared during the first year of operation, 18 per cent made their exit the second year, and roughly 10 per cent quit in the third year Thus, by the end of 1933 approximately 53 per cent of the starting stores had changed ownership Among the different kinds of stores there appeared great relative variation For instance, only 16 per cent of the garages and 17 per cent of the restaurants were under the original firm name at the end of 1937 Over 50 per cent of the drug stores, on the other hand, enjoyed an uninterrupted life during the period covered" STARR, G. W, and G. A. STEINER, "Business Turnover of Indiana Retail Trades," *Indiana Business Studies* 19, August, 1939, p. 59

and hardware stores have the longest life. Two factors seemed to contribute to this high mortality: (1) inadequate capital; (2) inadequate retail training. Too many people have had the idea that it takes very little money to start a store and build it into profitable operation, and too many people have had the idea that anyone can operate a retail store whether he has had any training in retailing or not. As a result, such persons have invested their money in a store that was foredoomed to failure.

To share in the rewards of retailing, one must be prepared in training and in financial resources. Retailing also requires hard work and plenty of it. As one reads the history of the pioneer retailers mentioned in this chapter or talks to the present-day successful merchant, he is convinced anew of the truth of the old adage—there is no royal road to retail success.

New Frontiers of Retailing.—Retailing has been described as "changeless yet ever changing." Through the centuries, it has tried to provide us with the satisfaction of our wants—its changeless purpose. Yet the agencies it has used to accomplish this purpose have been not static but rather kaleidoscopic, changing constantly with the advent of new ideas and new conditions. From the pioneering peddler to the general store, to the mail-order house, to the supermarket, the history of business takes steps that will lead us on to new patterns of retailing.

The whole field of marketing has been accused of costing too much, a cost to which retailing contributes a heavy share. The student and practitioner of retailing constantly should be striving to discover ways for improvement or new retail institutions whereby the merchandise that the consumer wants can be got to him for less money. We must judge the worth of each form of retailing by its ability efficiently to satisfy society's wants. As we turn to the next chapter, we shall find described the present-day patterns of retailing. These must be to us the stepping stone to still newer frontiers of still better retailing.

CHAPTER II

MODERN TYPES OF RETAIL INSTITUTIONS

The Cost Cycle in Retailing.—As one turns the pages of retail history, one becomes aware of a cost cycle in the development of each type of retail institution. When a new type of retail store appears, operating costs tend to be low and this fact makes it possible to draw trade through low prices. As the years go by, costs tend to rise. Competition seems to necessitate moving into better and higher rent areas, to have better and more expensive layout and equipment, and to offer more services. As these costs rise, the stores have to shift emphasis away from price and stress service and quality more. Thus, they lose the comparative price advantage that promoted growth in the beginning. At the same time, this reopens a field for the rise of still another new type of retail store again emphasizing price. The history of the department store and the chain store reveals the working of this cost cycle. The supermarket now is in the early stages of this same cycle.

Classification of Retail Institutions.—In order to understand better the various kinds of present-day retail stores, it is desirable to classify them into groups. However, because of their constantly changing characteristics, it is difficult to classify these retail outlets into distinct types. The traditional merchandising lines are being so intermixed that one writer speaks of the resultant conditions as "scrambled retailing." Today, we find clothing stores selling jewelry, drugstores selling apparel,[1] sporting-goods shops selling clothing, barbershops selling tobacco products, and hardware stores selling tea; one may buy rabbits from a mail-order house, a watch in a restaurant, or aspirin at a filling station. This is largely due to the desire of the public for convenient buying. If it wants to get goods at certain places,

[1] The Red Cross Drug Department Store of Miami, Florida, does an annual business of almost two million dollars selling drugs and apparel. For an interesting description of this store, see *Retail Executive*, Mar. 13. 1940, p. 4.

someone will be found to satisfy this desire. Although additional lines are being added in nearly all retail stores, the greatest change is taking place in the drug-, grocery, cigar, and 5-and-10-cent stores. Practically all the items being added by these stores are in the group of "convenience"[1] articles. These four types of store seem to be making up a new class which might be called "convenience stores."

Printers' Ink tells us that a Brazilian committee studying American marketing methods reports of our drugstores that they are

> . queer establishments of strict American style, where the main commerce seems to be drugs, but in reality the bulk of their business is refreshments, hot beverages of all kinds, ice cream, sandwiches, etc. There is also a complete assortment of perfumes and accessories, little fancy articles, china ware, metal ware, electrical appliances, stationery, tobacco, sweets, books, toys, watches, and all sorts of useful and original things.

Out of this chaos, we might offer the following nine general types of retail distribution for our discussion in this chapter:

Major Groups	Minor Groups
Independent single-line stores	General stores
Department stores	Cooperative stores
Mail-order houses	Company stores
Chain stores	Direct-selling houses
Supermarkets	

Retail stores may be grouped also into various other classifications according to the basis used for classification. For instance, stores might be divided according to the predominating class of merchandise handled—hardware, grocery, clothing, candy, sporting goods, etc. Another classification might be on a service basis—full-service stores, limited-service stores, and automatic selling. Still another classification might be according to ownership—independent stores (including voluntary chains), chain stores, company stores, and cooperative stores. The size of the store—large stores and small stores—and the location of the store—downtown stores, suburban stores, and neighborhood stores—are additional classifications. Naturally, the different classifications overlap. One unit of a chain may

sell only groceries, serve only a neighborhood, and operate on a limited-service basis. In the Federal Census of 1940, retail stores were classified according to kinds of business, types of operation, and forms of organization.

The different types of store make different appeals to the public and in many instances compete with each other. All of them, however, do not appeal to the same class of people. Because of this difference in their clientele, little competition exists among certain types. For example, there is usually keen competition between the mail-order houses and the general stores but little competition between the general store and the department store. Each of these types has certain characteristics, and each has its advantages and disadvantages.[1] The importance of the general store in the life of its community has been discussed in Chap. I

Retail Statistics for 1939.—On pages 18 and 19 are two summaries of retail-store statistics from the Sixteenth Census of the United States, 1940. They show that in 1939 there were 1,770,355 stores in the United States having total sales of $42,041,790,000 There were 1,613,673 proprietors of these stores and 4,600,217 employees, making a total of 6,213,890 people who worked in retail stores on a full-time basis

Independent Single-line Stores.—As communities became larger and trade increased, it became possible for stores to specialize in a single line of goods instead of doing a general merchandising business. Thus there came into existence single-line stores, such as grocery stores, hardware stores, drugstores, and dry-goods stores Such special stores naturally needed a larger body of customers than did a general store.

The independent single-line store, by far the most common type of retail establishment, has a greater number of units and a greater sales volume than any other type. It is difficult to speak of the characteristics of the single-line because the stores comprising this group differ among themselves. One store may be doing a $3,000 a year business in a village, whereas another is located in the main shopping area of a large city and does a $1,000,000 business.[2] Although both these are independent

[1] An interesting financial picture of an important retail corporation is found in "Stores Squeeze Out Extra Profit per Dollar in '39," *Retail Executive*, May 1, 1940, p. 2.

[2] The latter store has many of the characteristics of a department store—

single-line stores, they have few characteristics in common In general, independent single-line stores have three common characteristics: (1) They are owned and operated as independent units. (2) They handle a fairly complete assortment of a single line of merchandise (3) They usually do not have an elaborate departmental organization.

UNITED STATES SUMMARY—STORES, PERSONNEL, PAY ROLL, AND STOCKS BY KINDS OF BUSINESS, 1939

Kind of business	Number of stores	Sales (add 000)	Proprietors and employees[a] (average for year)	Pay roll (add 000)	Stocks on hand, end of year, at cost (add 000)
United States 1939	1,770,355	$42,041,790	6,211,490	$4,529,499	$5,116,583
United States 1935[a]	1,587,718	32,791,212	5,338,366	3,568,167	4,271,280
United States 1929[b]	1,476,365	48,329,652	5,721,220	5,041,128	7,199,650
Food group	560,549	10,161,967	1,315,138	760,762	589,938
General stores (with food)	39,688	810,312	99,347	47,376	174,130
General merchandise group	50,267	5,665,007	903,369	803,485	922,178
Apparel group	106,959	3,258,772	471,066	420,823	674,674
Furniture—household—radio group.	52,827	1,733,257	256,726	280,515	366,761
Automotive group	60,132	5,516,035	140,536	507,947	554,960
Filling stations	241,858	2,822,495	167,002	198,934	99,401
Lumber, building group	39,667	1,761,205	195,934	220,628	380,053
Hardware group	39,646	973,700	122,117	91,532	317,063
Eating places	169,792	2,135,020	761,6[illegible]	405,896	34,000
Drinking places	135,591	1,385,032	318,452	159,689	38,164
Drugstores	57,903	1,562,502	239,076	172,733	304,883
Liquor stores (packaged goods)	19,136	586,351	30,346	30,782	60,203
Other retail stores	172,375	3,496,137	504,617	407,609	543,135
Secondhand stores	23,962	138,007	46,814	20,758	41,140

[a] Includes full- and part-time employees and active proprietors of unincorporated businesses.

[b] Revised to exclude service garages and other automotive businesses formerly classified as retail but now included in the Service Census.

The specialty shop is one type of a single-line store. This term usually applies to a store handling a limited line of women's wear or accessories in competition with department stores The keenest competition a high-class department store has is from the specialty shops in the shopping area. The term *specialty shop* is also sometimes used to refer to a store that handles a line

departmental organization, large-scale buying, etc It might be considered a cross type between an independent single-line store and a department store.

UNITED STATES RETAIL TRADE BY TYPES OF OPERATION, 1939

Type of operation	Number of stores	Sales (add 000)	Percentage of total sales			Active proprietors of unincorporated businesses	Number of employees[a] (average for year)		Pay roll[a] (add 000)		Stock on hand, end of year, at cost (add 000)
			1939	1935	1929		Total	Part time	Total	Part time	
Total, all types	1,770,355	$42,041,790	100.0	100.0	100.0	1,613,673	4,600,217	869,285	$4,529,499	$318,731	$5,116,583
Independents	1,624,685	31,409,859	74.7	73.3	77.6	1,602,937	3,322,447	519,302	3,259,854	197,388	4,048,753
Single store	1,521,145	27,417,200	65.2	64.9	68.7	1,541,060	2,839,921	450,633	2,727,852	171,168	3,511,964
Multiunit	77,845	3,752,509	8.9	7.9	8.8	37,544	457,560	61,802	510,852	23,913	523,877
Market and roadside stands	18,014	103,162	0.3	0.3	[b]	17,281	10,656	3,461	7,675	1,078	1,798
Leased departments, independent	7,661	136,988	0.3	0.2	0.1	7,052	14,310	3,406	13,475	1,229	11,114
Chains	123,195	9,105,825	21.7	23.3	20.3	3,102	1,118,374	323,409	1,090,100	108,937	878,948
Local chains	25,455	1,581,386	3.8	3.1	6.7	2,081	192,943	34,034	207,430	12,334	143,462
Sectional or national chains	82,049	6,771,009	16.1	19.5	12.6	839	830,320	275,887	767,908	91,876	652,734
Manufacturer controlled chains	10,123	583,062	1.4	0.4	0.7	36	70,414	7,570	91,781	2,835	65,823
Leased-department chains	5,568	170,368	0.4	0.3	0.3	146	24,697	5,918	22,987	1,892	14,929
Other types	22,495	1,526,106	3.6	3.4	2.1	7,634	159,396	26,574	179,539	12,406	190,882
Utility-operated stores	4,836	151,539	0.4	0.4	0.3	138	25,928	10,642	31,281	5,735	24,250
Direct selling, house to house	5,199	153,397	0.4	0.4	0.2	3,492	40,883	7,993	42,982	2,575	7,803
Commissaries or company stores	2,007	148,248	0.3	0.3	0.3	231	11,980	1,524	13,183	533	16,868
Farmer and consumer cooperative stores	3,698	224,375	0.5	0.3	0.2		16,861	2,705	17,546	822	20,621
State liquor stores	2,618	249,430	0.6	0.5			7,960	487	10,707	219	18,254
Mail-order houses	434	537,413	1.3	1.3	1.0	257	50,955	2,525	58,487	2,303	100,035
Other types of operation	3,703	61,704	0.1	0.2	0.1	3,516	4,829	698	5,353	219	3,051

[a] Employees and Pay roll include paid executives of corporations but not the number and compensation of proprietors of unincorporated businesses

[b] Less than one-tenth of 1 per cent

of "specialty"[1] goods, for example, a store featuring grocery specialties.

Because the average independent single-line store is of small or medium size, we shall consider such a store as the typical independent single-line store in our discussion of this type.[2] In spite of its small size, because it specializes on one line of merchandise, it is able to carry more complete stocks than the general store. Because of this greater volume, it usually buys on better terms and operates more effectively than does the latter. However, in its competition with other forms of retailing, such as the chain and the department store, it has two outstanding disadvantages, both of which, however, may be minimized. Because of its small size and volume of business, it must buy in small amounts. This places it from the start at a disadvantage as compared with the large-scale retailing institutions which receive quantity prices through large purchases. The independent store has lessened this disadvantage through various kinds of cooperative buying groups.[3] By combining their purchases and thus buying as a unit, these smaller stores are able to make large purchases of many items and so get lower prices. By such cooperation, they also are able to get certain advantages of specialized management.

A second disadvantage has been the fact that the independent merchant has not used scientific retailing methods. This condition arises from two different causes. The small size of the average independent store makes it impossible for it to use certain of the agencies and means employed by the larger stores. For instance, except for the larger independent store, it cannot have their specialized personnel. It seldom can have a trained advertising man or an expert credit man, and so forth. Rather, one man is forced to fulfill many functions and so cannot become an expert at any of them.

The second cause of this disadvantage has been the independent merchant's neglect of the scientific methods at his command.[4]

[1] For explanation of meaning, see Chap III.

[2] Barker, C. W., and M L Anshen, *Modern Marketing*, Chap. 8, McGraw-Hill Book Company, Inc., 1939. Cherington, Paul T., "The Small Retailer. An Appraisal," *Harvard Business Review*, Spring, 1939, p. 326

[3] These are discussed at a later point.

[4] "What Is Wrong with Small Town Stores?" *Retail Executive*, Mar. 13, 1940, p. 2.

He has continued to go his way doing things as he used to do them in a world that is moving at a different tempo. This is inexcusable. Dirty windows, lax credit and collection methods, slow turnover, purchase of merchandise unsuited to consumer demand, failure to study costs, uninteresting advertising, and poor salesmanship are all charges that can be made against an army of independent merchants. Fortunately for them, this situation is improving each year. More and more the independent merchant is girding himself for the battle by making use of those scientific methods of retailing that have helped his larger competitors. He has watched the chain store, observed how it has developed good merchandising practices, and has copied these practices in his own business Today, thousands of independent retailers have placed themselves on a par with their chain-store competitors

To help him in this competitive struggle, the independent retailer has three outstanding advantages The incentive of ownership has urged man on through the ages to work a little harder and to strive a little more It is easy for him to see that the more he puts into his business the more return he will get. Various plans have been devised by large-scale retail institutions to give this same incentive to their hired employees, but none can equal the incentive resulting from actual ownership.

The personal relation between owner and customer to be found in a small independent store is another advantage. Through this direct contact the owner is in a position to know the customer's wants and his reactions to the store's merchandise and services. He can learn the individual preferences of his customers and thus serve them better.

Flexibility of management is the third advantage of the independent merchant Because he is the owner of the business, he is free at any time to make any adjustments that seem desirable. He is free to quote special prices, decide on changes in store hours, or make other appropriate regulations without getting the permission of a home office or a store's council.

Because of these advantages and because there are chances of lessening its disadvantages, the independent store is in no danger of extinction. Those who prophesy that it will be eliminated by the chain store or the supermarket are mistaken. Department-store competition and mail-order-house competition in past

years have not ruined the independent merchant, nor will the chain store or the supermarket do so now. The government, through taxation and regulation, is helping the independent merchant in his competition with chain stores. At the same time the manufacturer of nationally advertised brands and the wholesaler are beginning to realize that their safest market is the independent merchant rather than the chain store; consequently, the manufacturer and wholesaler are trying to strengthen the independent merchant. The independent merchant is adjusting himself to changing competition and will continue to play his part in serving the consumer.

Department Stores.—There have been various explanations of the origin of the department store. Some say that the idea came to America from Paris and name the Bon Marché as the original department store. Although it was in existence before any in America, there is no clear proof that the first American department stores were patterned after it. The average early department store was a development of a dry-goods store or a women's wear store. Gradually, one line after another was added to the original stock until eventually the store had many departments, several of which had little, if any, relation to the original stock.

Statements of different people as to the number of department stores in the United States show a wide variation. This is largely due to a difference of opinion as to what constitutes a department store.[1] Some would say that a department store must be of a certain size, that is, must have a certain volume of sales.[1] Certainly the department store is thought of as a large store—that is, one having a large sales volume. Because it is a large store, it must be located in the heart of the shopping area where the greatest number of potential customers will pass its door. It is a large purchaser of newspaper advertising space.

Some would say that the departmental form of organization makes a store a department store. Yet many stores of large size that have a departmental form of organization are never called

[1] As with many terms, there is a difference of opinion as to the correct usage of "department store" One of the authors recently noticed a small Florida store in a building 15 by 20 feet that boldly proclaimed itself a department store. Many similar examples can be found in the smaller towns. On the other hand, John Wanamaker always denied that his store was a department store although the rest of the world so classified it.

department stores. For instance, some of the large city food stores and clothing stores are completely departmentized and yet are not spoken of as department stores.

A department store is one having usually a large annual volume of sales, handling a wide variety of merchandise, including dry goods and women's ready-to-wear, and arranged into departments, each of which is merchandized separately as to location, personnel, and records Each department is treated as a separate store but is bound to the other departments for the common good. Each has its own buyer or manager,[1] its own location, and its separate sales force and, after bearing its proportionate share of the department store's expenses, tries to show a profit on its operations. Because the average large store has such an organization, it is the fact that a store "handles a wide variety of merchandise including dry goods and women's wear" that puts it into the class of "department" stores The Sixteenth Census of the United States showed 4,074 department stores with a total annual sales volume (1939) of $3,974,998,000, which was 9 4 per cent of the total net sales of all retail stores. Of this total, 1,371 were independent department stores having a sales volume of $2,312,279,000 There were 2,672 chain department stores with a sales volume of $1,194,517,000 The 24 mail-order house department stores had a sales volume of $464,289,000. The rest of the total is accounted for by "other types."

The department store, even more than most types of retail institution, is a woman's store. Its whole appeal is directed to women Its advertising, its displays, its layout, and its services are all planned to suit women's tastes and to satisfy their desires It tries to make shopping as easy and as pleasant as possible for them.

Many department stores have immense sales volumes R. H. Macy & Co, plus its subsidiaries, with net sales in 1938–1939 of $125,000,000, had the largest sales volume of any single department store in the United States The J. L. Hudson store in Detroit is second in size of sales volume. Marshall Field and Company does not publish its sales except for the corporation as a whole, which includes other units besides the main retail store. However, it is thought that the sales volume of the Marshall Field and Company retail store in Chicago is third in size in this

[1] In some cases a buyer may supervise several departments.

country. A number of other department stores have sales volumes in excess of $20,000,000 per year.[1]

The department store is characterized by four factors that help it make its appeal to the public. (1) quantity buying, (2) specialization of personnel, (3) the prestige of size, and (4) convenience to the customer. In order to increase this first advantage, the department store is engaging in cooperative buying. This practice, which will be discussed in a later chapter, enables it to buy even more advantageously through the larger size of the cooperative order.

Because of the size of its business, the personnel of the store can spend its entire time in specialized work. A department of trained advertising men can handle the store's advertising work, and the same is true of credit, collections, record keeping, training work, and other store work. The very magnitude of the store gives it a certain amount of prestige in the average American's eyes; for size seems to connote success, and he likes to associate himself with successful institutions. The many types of merchandise and the many special services, such as rest rooms, children's playgrounds, travel bureaus, restaurants, and beauty shops, all found under one roof, make the department store a convenient and a favorite shopping place for women.

The department store has three outstanding disadvantages: (1) high cost of operation, (2) personnel problems, and (3) traffic difficulties due to central location. The high ratio of expenses to sales is due to the large amount spent for rent because of the central location, the extensive advertising, the provision for delivery at frequent intervals and over a wide territory, the large amount of returned goods, and the many other special services that the department stores offer to attract trade.

The development of proper store personnel is very important in a department store. This is especially true of the sales force,

[1] A number of statements from different sources show the magnitude of department-store operations. It is stated that the department stores of the country send out almost 3,000,000,000 packages each year. Gimbels of Philadelphia report 13,000,000 annual sales transactions and the filling of 300,000 mail and telephone orders. Marshall Field and Company has 175,000 charge accounts. R. H. Macy & Co. claims that considerably more people pass through the doors of their store on an average day than live in the state of Nevada. This store is said to buy each week approximately 800,000 pennies, 220,000 nickels, 200,000 dimes, 64,000 quarters, and 44,000 half

because most of the customers' contacts with the store are through the salespeople. In spite of its ability to select and train employees, the department store is noted for the weakness of its sales force. Especially is this seen when the salesmanship in the department store is compared with that found in competing specialty shops.

The increasing number of automobiles and the growing congestion of downtown shopping districts, with the resultant traffic congestion and parking restrictions, have made it more difficult for the woman shopper to reach the central location of the department store and to shop conveniently.

Though many department stores are increasing their annual sales volume, this is not altogether true of department stores as a group This circumstance, together with the fact that few new independent department stores are coming into existence, leads one to believe that the independent department store as we have known it has reached the peak of its growth [1] As an institution, it is being criticized by some people for its lack of progress However, three developments or possible trends in the department-store field during recent years should be mentioned: (1) the development of chains of department stores; (2) a widening of appeal by means of bargain basements and de luxe shops; (3) the establishment of branch stores in suburban shopping areas.

A number of years ago, Mr. Edward A. Filene prophesied that the future of the department store lay in the formation of great department-store chains Each department in such department-store chains would also be one unit in a chain of similar departments. This would mean many chains of departments within the department-store chain itself and would give a tremendous buying power to these chains Some of our present department-store chains have resulted from a merger of department stores already in existence. In such cases the individual stores usually continue to operate under their old names and so benefit from the good will which that name has built up through the years. Some writers say such stores should be spoken of as department-store "ownership groups" rather than as department-store "chains."

[1] A more optimistic view is taken in J. M. Baskin, "How Will the Department Store Fare in the Decade of The 40's?" *Women's Wear Daily*, May 1,

Through cooperative buying associations, independent department stores try to secure the buying advantages of the chain department store, at the same time maintaining their independence and freedom of action.

The effort of the department store to widen its appeal is shown by two movements. By developing bargain basements[1] and bargain or low-priced stores,[2] it is appealing to a class of trade that is interested in the cheaper price lines. Through establishing de luxe shops in connection with different departments, it is appealing to the wealthier trade These two movements attempt to attract the trade of those who have not patronized the store before and so increase the sales volume.

The development of branch stores in suburban areas is a third trend in the department-store field.[3] Some stores that have tried this have abandoned the idea, but a greater number of metropolitan stores are convinced that traffic conditions will necessitate an increasing number of branch outlets.

Mail-order Houses.—The modern mail-order business started within a decade after the close of the Civil War, growing out of post-war conditions The country was demanding goods and services that the small-town stores were not furnishing. Aaron Montgomery Ward was one of the early leaders in sensing this situation and in helping solve it through the mail-order house " . . . Mr. Ward realized that it was difficult for the farmers to get into town to shop. Also that country stores were likely to stock a meager variety of dubious merchandise at high prices."[4] As the mail-order industry developed, it became the most serious competitor of the country and small-town store. In fact, some felt that the mail-order house might force these other types out of business So a movement arose for legislation against the mail-order house, and a demand was made that the consumer should patronize home-town industries, that is, home-town stores. After these means failed, the merchant turned to a study of his own merchandising methods to see how he could improve these and thus lessen the competition of the mail-order house.

[1] The basement store is discussed in Chap. XVII.

[2] "BADER, LOUIS, "The Economics of the Macy-Bamberger Retailing Experiments," *Journal of Retailing*, October, 1940, p. 82.

[3] The development of branch stores is discussed more fully in Chap. III.

[4] "Montgomery Ward," *Fortune*, January, 1935, p. 69.

The mail-order business of the country can be grouped into four classes:

1. General mail-order houses
2. Specialty mail-order houses
3. Retail-store mail-order departments
4. Magazine and professional mail-order shipping

Sears, Roebuck and Co. and Montgomery Ward and Company are the two outstanding examples of the general mail-order house. They handle a wide variety of merchandise, over 100,000 items appearing in each of their catalogues. One of these houses claims a customer list of 20,000,000 names Montgomery Ward and Company owns four factories which produce merchandise for that company. The rest of the merchandise it buys direct from the manufacturers. Sears, Roebuck and Co. manufactures about 4 per cent of its goods in its own factories.

There are hundreds of houses that do a specialty mail-order business—that is, sell one article or a narrow line of articles by mail. A glance at certain magazines will show a large number of advertisements of these specialty mail-order houses Some department and specialty stores also do a mail-order business chiefly as a help to their out-of-town customers. Instead of sending out semiannual catalogues, as do the general mail-order houses, they sell through special catalogues and announcements.

A number of magazines, especially fashion magazines, describe merchandise that they think will interest their readers and offer to buy it for them. There are also a number of professional shoppers who do a mail-order business, securing their profit from discounts granted by those from whom they purchase.

According to the Federal Census of 1940, the volume of mail-order house sales in 1939 was $537,413,000. This was 1.3 per cent of the total sales of all retail stores This figure does not include the retail-store business of mail-order houses, for it was classified under the heading of national chains. The 1940 net sales (retail and mail order) of Sears, Roebuck and Co. were $704,301,014, and those of Montgomery Ward and Company were $515,910,915 It is estimated that in both cases, 60 per cent of these sales, approximately, was done by their retail stores and 40 per cent by their mail-order business.

The general mail-order house has had four advantages to help

quantity buying, (3) wide variety of merchandise, and (4) a public belief in its lower prices and good quality. The buying advantage is one held in common with other forms of large-scale retailing. The two leading mail-order houses carry a much wider variety of merchandise than any specialty store or even medium-sized department store Through the years, they have maintained progressive merchandising policies and have never ceased trying to meet or even to anticipate changing competition.[1] Many years of advertising have developed the belief that mail-order prices are lower than those of other retail establishments, and the wide guarantee of their merchandise has given the public confidence in its quality. One mail-order house executive has said, "There is no limit to the extremes we'll go to meet the standards we've set for our merchandise Before we buy anything our stylists and engineers scrutinize the article, take it to pieces, test it in all sorts of ways. Then we buy to exacting specifications and in such quantities that we can offer you merchandise at an astounding saving"

To counteract these advantages there are these disadvantages. (1) lack of the personal contact that one gets in a local store; (2) inability of the customer to inspect the goods before purchasing; (3) the necessary time delay in obtaining the merchandise. The customer must wait some time after sending the order before the merchandise is received. In order to decrease this time delay, the larger mail-order houses have increased the number of their warehouses and have located them in different parts of the country. They also have speeded up the handling of a customer's order so that it is shipped the same day it is received. The costs of operation of the mail-order business seem, in general, to be lower than those of department stores but somewhat higher than those of the small-town general store.

The time element gives rise to some of the mail-order house's most difficult merchandising problems. This is especially true during periods of rapidly changing prices and in the handling of fashion merchandise. The merchandise must be purchased

[1] One of the basic principles of the mail-order houses for years had been a policy of sales for cash only. In recent years, they have changed this policy to permit credit selling. Today, almost 30 per cent of the four big Chicago mail-order houses' sales volume is on time payments (see "Credit Granting by Mail," *Retail Executive*, Apr. 10, 1940, p. 2, Apr. 17, 1940, p. 10).

weeks and even months before the catalogue reaches the customers; hence, the mail-order house must plan for conditions months in the future. This is a particularly perplexing problem because of the difficulty of forecasting price[1] and fashion changes.

The outstanding development in the mail-order field during recent years has been the entrance of the larger mail-order houses into the chain-store and department-store fields. Conditions having been unfavorable to mail-order growth, these houses have been establishing retail stores. Low-priced automobiles and improved country roads have made it possible for the farmer's family to drive to the nearest shopping center so that they are no longer confined to catalogue buying.

Sears, Roebuck and Co. opened its first retail store early in 1925. On Jan. 31, 1941, this company had 76 class A stores and 519 class B and C stores located in 40 states. Class A stores are department stores in cities of over 100,000 population and carry more than 50 per cent of the items listed in the catalogues of the company. Class B stores carry a much more limited line of goods than do the class A stores. Class C stores handle an even more narrow line of merchandise than the class B stores, but they ordinarily handle automobile tires and accessories, radios and radio equipment, and other merchandise especially adapted to the needs of the community in which the store is located.[2] There were also 181 catalogue mail-order offices located chiefly in the smaller towns where customers could place orders for merchandise to be shipped to them from the mail-order house.

[1] Probably the most difficult problem for the mail-order house is pricing. Each of the two big catalogue houses begins mailing its spring book about Jan. 15, and it is expected to pull business until Aug. 15. Yet setting of prices begins in the previous mid-October and has to be concluded a month later.

"If markets rise rapidly, catalogue sales will gain momentum, but if requirements are not covered by previous contract, the margin declines quickly. If prices fall, it becomes easier for retailers in making repurchases to compete with the catalogue. The mail-order houses' profit per sale will grow, but will fail to compensate for reduced volume." J. M. Baskin, "'Big 2' Still Make Profits on Mail Order," *Retailing*, executive ed., Jan. 2, 1933, p. 2.

[2] In the case of the retail stores of the mail-order houses, when a customer desires merchandise not carried in the store, an attempt is made to order it from the catalogue for him.

Montgomery Ward and Company entered the retail-store field late in 1927 with a plan for a rapid and large-scale expansion of retail stores. On Jan 31, 1941, this company was operating 650 retail stores located mostly in towns of 5,000 to 15,000 population and 206 catalogue mail-order offices.

The retail stores of the mail-order houses were not at first a profitable venture. Failure to study local needs, poor selection of store locations, and a personnel trained in catalogue merchandising rather than in retail-store selling were among the many weaknesses of the early retail-store divisions of the mail-order houses. After several years spent in perfecting the retail organizations, the retail divisions of the mail-order houses have become profitable and successful Another interesting development shown by the mail-order companies is the large increase in their mail-order sales Though it is doubtful that the mail-order business will play as prominent a part in the retailing world as it once did, still it is not passing out of the picture, as some people prophesied.[1]

Chain Stores.—The chain store is one of the most widely discussed forms of business enterprise. On the one hand, it is vigorously condemmed by those who feel it is economically and socially harmful. On the other hand, it is highly praised by those who feel it has made retailing more efficient. The latter maintain that its method of merchandising is reducing waste in distribution and that therefore it is economically desirable. Both sides agree that it has made important changes in the retail world.

A chain is a group of stores handling similar merchandise, under central management and ownership, and merchandised from a separate office.[2] Chains may be classified in three different ways: (1) According to merchandise carried, there are grocery chains, drug chains, clothing chains, department-store chains, and so forth. (2) According to territory covered, there are local chains, sectional chains, and national chains. (3) According to owner-

[1] An explanation of this is found in "Catalog Comeback," by P. H. Erbes, Jr, *Printers' Ink*, April 5, 1940, p. 11.

[2] The Federal Census of 1940, gives the following definition of a chain: "The chief characteristic of this classification is that these stores are groups of four or more with same general kind of business owned and operated jointly with central buying, usually supplied from one or more central warehouses."

ship, chains may be grouped into such classes as independent, manufacturer's, wholesaler's, mail-order house, and leased-department chains.

An *independent* chain is one that is independent of outside control but that is managed and owned by an individual, partnership, or corporation for the primary purpose of doing a retail chain-store business. Among the better known independent chains are the F. W. Woolworth Company, The Great Atlantic and Pacific Tea Company, and the W. T. Grant Company. A *manufacturer's* chain is a group of retail stores operated by a manufacturer for the distribution of his own goods. Men's hats, shoes, candy, clothing,[1] sporting goods, and sewing machines are among the products marketed in this way. Some manufacturers have entered the retail field because of dissatisfaction with the way the retailer was pushing their products; others, to control the price; others, to insure the product's reaching the customer in the best condition. Expert selling ability, servicing of the product, and experimentation in methods of retailing the product are other reasons. As a rule, the manufacturer is producing a full line of goods for his stores. Because retailing and manufacturing are so different in their nature, a manufacturer seldom enters the retailing business unless he feels himself forced into it.

Changing conditions in distribution have placed the wholesaler in a position where he is threatened with the loss of much of his market. To counteract this, he has, in many cases, built up retail outlets. When the retail stores are associated with the wholesaler but each maintains its identity, there is a voluntary chain[2] with the wholesaler as the source of supply, at least in part. However, when the wholesaler owns and manages the stores, it is a *wholesaler's* chain.

A chain made up of departments in various stores rather than of complete stores is called a *leased-department* chain. In a great many department stores,[3] certain of the departments are owned and operated by parties outside the store although, so far as the public is concerned, they usually appear to be depart-

[1] NORBY, CLIFFORD A., "Manufacturing Chains in the Men's Wear Field," *Journal of Retailing*, December, 1940, p. 115.

[2] Discussed later in this chapter.

[3] Other types of store may also lease out certain sections or departments.

ments of the store itself.[1] Though some of these leased departments are operated by individuals, others are part of a chain company that conducts similar operations in many different department stores. In 1939 there were 7,661 independent leased departments doing an annual business of $136,988,000 and 5,568 leased-department chains with an annual business of $170,368,000. The *mail-order* chains have already been discussed.

In 1939 in the United States there were 123,195 chain stores or units which constituted about 7 per cent of all the stores in this country. The sales of all chain stores totaled $9,105,825,000, or 21.7 per cent of total sales in all retail stores, both chain and otherwise. The average annual sales of chain stores were $73,914 This compared with $19,333 for independent stores.

The Great Atlantic and Pacific Tea Company has the largest sales volume of any retail chain organization in the world.[2] For the year ending Feb. 28, 1940, its sales totaled $990,358,339, with 10,881 stores (which includes 1,000 supermarkets) in operation. The company's peak sales volume was $1,065,806,-885 for the year ending Feb. 28, 1931, with 15,737 stores in operation.

The chain store has a number of advantages that have fostered its growth. Chains frequently buy in even larger quantities than do the wholesalers. This quantity purchasing allows the chains to buy at the lowest market prices. A manufacturer finds it worth while to work with a chain buyer to figure the order at the lowest possible price. The manufacturer gets the advantage of a contract covering a large quantity of merchandise cost. Thus, both receive an advantage by working together. This quantity-buying advantage, together with their usual practice of limited service, has enabled the chain stores to quote lower prices than are customary. The belief on the part of the public that it can buy for less in the chain store has been a powerful factor in their growth. Specialization is an advantage enjoyed by the chain as well as by other types of large-scale retailing.

[1] Leased departments are discussed more fully in Chap VI.

[2] This organization has become integrated to a considerable degree. It has 47 general warehouses, 40 produce warehouses, 7 meat warehouses, 3 fish warehouses, 3 butter warehouses, 58 bakeries, 3 cheese plants, 2 milk plants, 1 creamery, 6 general factories, 9 coffee-roasting plants, 4 salmon canneries, 1 salmon fishing fleet, 4 laundries, and 1 printing plant.

Expert supervision has been devised by the chain store to control its many units and to enforce scientific methods in all its stores. Another advantage has come through integration where certain buying and selling costs of the ordinary channels of distribution have been eliminated. Because most chains combine both the retailing and the wholesaling function, they eliminate the selling and the credit expenses that the jobber has when selling to independent retailers. The larger a chain grows, the more widespread are its risks. Thus a local strike or crop failure, which might seriously cripple independent merchants, will affect only one or a few of the units of the chain. There is also the chance to experiment in a few stores of the chain for the benefit of the whole group

The tendency to handle easily sold and rapidly moving merchandise has been a chain-store characteristic This is given as an explanation of why the chain store has made so little progress in the hardware field where many items are slow in selling and frequently require servicing and technical knowledge In the average chain store, the merchandise does not require a great deal of selling ability. The store usually handles out of a given line only those items that are demanded by the largest number of customers, that is, those items that will have the most rapid turnover. The chain's ability to sell its private branded merchandise is of increasing importance owing to the effect of state fair-trade laws and of the Robinson-Patman Act. A final advantage is the prestige of a large organization. Because of its standardized front, layout, private brands, and policies, each unit of the chain seems familiar to the customer although he may never have been in that particular unit before. The large chain can utilize forms of advertising not open to the independent merchant. For example, a national chain tells the whole nation the same story at the same time through the medium of a chain radio program or an advertisement in a national magazine.

The chain has, at present, three disadvantages: (1) personnel problems; (2) difficult of adjustment to local conditions; (3) public opposition. Any business that relies on hired employees has personnel problems to meet. This presents an even greater problem to the chain store because of its decentralized units. Because each store in the chain is separate in location from the

other stores and from the central office, the personnel must be controlled from a distance. The average chain system has built up a rigid control plan to meet this problem at least partly. The unionization of retail employees, which has shown continual progress since the summer of 1934, presents another personnel problem to the chain store. It seems probable that there will be an increasing percentage of its employees joining unions and that the chain store must grow accustomed to dealing with its employees through the representatives of these unions.

Though the desires of the public are more nearly standardized throughout the country than at any previous period, yet there are local differences as well as individual preferences.[1] The chain system of merchandising does not easily adapt itself to these variations from the standard or to unusual conditions that may arise suddenly in a community

In recent years, there has been widespread opposition to the chain store. The enemies of the chain store bring many charges against it. For example, they say that the chains draw money out of town, centralize business in the hands of a few, and do not participate in civic and charitable enterprises. As a result of this vigorous opposition, a great many people *say* they are opposed to chain stores. However, it is surprising how many of these people trade in chain stores in spite of their professed attitude.

Some of the charges against the chains are false or, if true, are no more true of chain stores than of independents, and others are being lessened in importance by changes in the attitude of the chain store. For instance, many chain organizations encourage their store clerks and managers to take an active part in the life of the community. The chains have realized that to continue to succeed they must have the support of public opinion. The large volume of business done by the chains would indicate that the public at large approves of this method of retailing. The mission of the retailer is to render the consuming public the best values possible, that is, to provide the most efficient distribution of merchandise to the consumer. Whatever type of retailing institution does this best will survive in spite of opposition. The independent retailer today is trying (1) to secure legislation

[1] BIJUR, GEORGE, "Ten Mail-order Americas," *Advertising and Selling*, September, 1940, p. 33.

to cripple the chain store, (2) to make himself a more efficient retailer by studying the chain store's merchandising policies and by developing his own strong points, or (3) to do both of the above.

Various laws, usually some form of the tax measure, have been passed, aimed at chain stores. Most of the early laws have been declared unconstitutional. The decision of the United States Supreme Court upholding the Indiana chain-store tax law was of special significance in that it opened the way in other states for similar laws. The burden of taxation resulting from these laws has become increasingly severe in recent years. This has resulted in a rise in expense of operation of the chains. In some states the law has based taxes on the number of stores in the organization, the rate rising in direct proportion to the increase in the number in the chain. As a result, the chains have been forced to close many of their stores in these states. Apparently, most chain-store taxes have had a punitive rather than a fiscal purpose.

The chain store is meeting severe competition today, and future competition may be even more intense This situation is due to the development of a more efficient independent merchant, to the growth of other chains, to the rise of the independent supermarket, and to the formation of cooperative chains. As chains grow and expand, they cannot help providing greater competition for the other chains, for their trading territories overlap. This greater competition is already resulting in the offering of more services by the chains and in increasing costs[1] of doing business; both these tendencies are likely to increase in the future. Such trends will lessen an advantage that the chain has had over other forms of retailing.

Cooperative Chains.—The independent store in its competition with the chain has learned to make use of various chain-store techniques. The cooperative chain[2] is one example of this practice. The Federal Trade Commission (F.T.C.) defines the cooperative chain as follows: "A cooperative chain is an association of independent retailers acting cooperatively either by

[1] For example, competition of different chains for a desirable store site may result in rent costs too high in proportion to the sales possibilities of the location.

[2] Also called a "voluntary" chain.

themselves or with a wholesaler to obtain advantages in buying, advertising, or in the performance of other merchandising functions or activities."

The independent-store owner maintains his private ownership of his small store and, at the same time, through this cooperative arrangement attempts to secure some of the buying and management advantages of the large-scale chain-store system. In reality a cooperative chain is not a chain, for each store is individually owned. In some cases, independent-store owners combine and form a wholesale house to serve them. In other cases a wholesale house already in existence organizes a group of independent-store owners around itself. They agree to buy from the wholesale house, and it agrees to furnish them with advertising, sales promotional plans, accounting systems, store layouts, and, often, private-brand merchandise

Supermarkets.—The supermarket[1] is the most recent retail institution to rise to prominence.[2] Its growth has come since its start on the Pacific coast about 1931. During the last decade, it has spread throughout the United States, competing on a price basis even with the grocery chains. At first, it handled only packaged grocery goods, but today we find it carrying a wide variety of merchandise, including not only all types of food and drinks but also drugs and various hardware and dry-goods items. Many of the early supermarkets were in vacant factories or garage buildings in order to get extremely low rents. Today, the trend is toward better appearing store buildings. Some of the supermarkets are independently owned stores, others are independently owned chains of supermarkets, while others are operated as units of the usual type of chain store such as the Great Atlantic and Pacific Tea Company.

[1] *Super Market Merchandising* says: A supermarket is a highly departmentalized establishment with adequate parking space, dealing in foods and other household merchandise, either wholly owned or with some of the departments leased out to concessionaires, doing a minimum of $250,000 annually. The grocery department, however, is operated on a self-service basis

[2] PHILLIPS, C. F., "The Supermarket," *Harvard Business Review*, Winter, 1938, p 188. AGNEW, HUGH E, and DALE HOUGHTON, *Marketing Policies*, McGraw-Hill Book Company, Inc., 1941, p. 106. ZIMMERMAN, M. M., "The Supermarket and the Charging Retail Structure," *Journal of Marketing*, April, 1941, p 402.

The supermarket has four advantages that have made possible its spectacular development: (1) lower operating costs; (2) large stocks of well-known merchandise; (3) adequate parking facilities; (4) self-service. As a rule the supermarket is not in a high-rent district. This permits it to provide land for free parking for its customers while keeping its rental expense low. Through self-service, it not only lowers the cost of clerk hire but permits the customer to take her time in looking over the merchandise and making her selections. She will find in the store large assortments of branded merchandise that are well known to her through their advertising. The mass displays of these goods appeal to her.

Company Stores.—A number of manufacturing, lumbering, and mining companies open stores for the benefit of their employees, selling groceries and a line of general merchandise with emphasis on work clothes and home wares Such stores are called "company" stores, "industrial" stores, or "commissaries." They are usually operated without profit to the company. Some of these stores are owned and operated by the company, and others are operated by the mutual-welfare association of the company. In 1939 there were 2,007 company stores having annual sales of $148,248,000.

Cooperative Stores.—Cooperative stores have not assumed an important role in American retailing. This is due to the facts that other forms of retailing are rendering good service, that our population is a shifting one, and that as a people we are too individualistic to give continual and loyal support to a cooperative store. The cooperative store is found largely in farming communities and in industrial centers where there are homogeneous groups of workers. The profits of a cooperative store usually are divided among the members according to the amount of purchases each has made during the period The control of the store is in the hands of the members, each of whom has one vote regardless of the amount of his financial investment. Most cooperative stores are either grocery stores or general stores. In a number of our universities, the bookstores are cooperative. In 1939 there were 3,698 farmer and consumer cooperative stores having annual sales of $224,375,000.

House-to-house Retailing.—This form of retailing seems to vary in importance, assuming its largest volume during and

immediately after periods of depression. At such times the greatest number of people who desire such employment are to be found. Among the best known companies in this field are the Fuller Brush Company, the Jewel Tea Company, and the Real Silk Hosiery Company. In 1939 there were 5,199 such companies doing an annual business of $153,397,000

A house-to-house salesman has a difficult time, for he comes unasked by the customer and at a time that may not suit her convenience. There is likewise a certain amount of distrust of these salesmen because of the dishonest practices of some house-to-house salesmen. The high cost of this method is another disadvantage.

There are two reasons why house-to-house selling has been successful. (1) The manufacturer controls the entire distribution and hence can provide aggressive selling. (2) It is a good means of doing introductory and educational work for a product. Several products, such as aluminum ware and vacuum cleaners, were introduced and their merits impressed on the public by this method of selling.

House-to-house selling has always been objectionable to the regular merchant, and he has tried to get legislation against it passed by city councils and state legislatures He has been successful in this in respect to merchandise delivered at the time it is sold. When the first call was simply to sell and the merchandise was delivered at a later call, any local restriction has been held to be interference with interstate commerce if the company itself is located out of the state. This interpretation has largely freed house-to-house selling from any local interference.

Traveling stores are not uncommon in the grocery field.[1] In the foreign sections of the cities are found the pushcart peddlers. In the suburbs and in medium- and small-sized cities, there are quite elaborate "groceries on wheels" or "rolling stores."

Automatic Selling.—The use of automatic vending machines has increased in recent years. They are operated by the insertion of coins and are used for articles at 50 cents or lower, the majority of sales being of 1- and 5-cent articles. Some of the machines are sold outright, and others are rented on a percentage basis. The greatest advantage of machine selling is the fact that

[1] Other merchandise such as ready-to-wear, dry goods, and hardware is also sold by rolling stores at times.

service is rendered at once and at any time. The chief disadvantages are mechanical difficulties and the lack of opportunities for salesmanship. Today, through a talking device, some machines can thank the customer when a purchase has been made. With increasing mechanical perfection, automatic selling will, no doubt, be more and more used in the sale of standardized and well-known products.[1]

Summary.—With these many different types of retailer competing with each other and with competition within each group, the result is inevitably a survival of the fittest. A speaker before a convention of the National Association of Credit Men, in discussing the elimination of the misfits in the retailing world, said, "Many retailers are incapable, inefficient and unprogressive. Their presence in business works severe hardship not only upon themselves but also upon efficient merchants whose business is adversely affected by their competition."

The man with a love for merchandising, who is continually looking for the most scientific and efficient method of operation, is the one who will survive and prosper. Each year finds the retail picture changing—a fact that keeps the door of opportunity open to the person who can envision a new way of serving our needs Merchandising today is both an honorable and a profitable profession and offers a bright career to one standing on the threshold of a business life.

[1] For a discussion of the requirements that a product should meet in order to sell successfully by automatic vending, see "Growth of Coin-device Automatic Merchandising," pp 26–29, by Harry W. Alexander, Boston Conference on Retail Distribution, 1932.

CHAPTER III

STORE LOCATION

When a retail store is being planned, the prospective proprietor finds himself confronted with many problems. In some way he must be able to finance this new venture and to nurse it along until it is strong enough financially to make its own way. The location of the store likewise requires an early decision—one that must be made before the store starts its life. The importance of having the right location for the store is not always fully appreciated by those who enter the retail business. If a poor location is chosen, the store is under a continual handicap in its competition for trade. If a better location had been secured, the store could attract the same volume of trade with just that much less energy, and the surplus could be used in attaining a still greater volume.

The problem of location may be divided into two parts. In the first place, the prospective retailer must choose the town or city in which he will locate his store. This involves a study of the comparative advantages and disadvantages offered by different cities. Having made this decision, he then must find the most profitable site available in that city for his store. Each of these phases of the location problem demands a careful analysis. Too many men have started stores without studying the economic need for another store in the selected community or the value of a particular site. With such unscientific beginnings, it is no wonder that there are so many fatalities in the retailing field—so many stores that are doomed from their start.

CHOOSING A CITY OR TOWN

Points to Be Analyzed.—This problem, in turn, involves two phases. The prospective retailer must determine in the first place whether or not a particular town offers an opening for his store. Then, having made such an analysis of several towns, he must make a decision concerning the relative opportunities they offer.

In the investigation of this problem, the following points are to be analyzed. The principal industries must be studied. If a city's industries are well diversified, trade will be less affected by any slow season or strike that occurs in one of these industries.[1] If the town's business relies mainly on one or more furniture factories, a falling off of furniture sales resulting in decreased employment will immediately touch all the stores in town. However, if there are other industries besides furniture factories in the city, these will not be affected by the depression in the furniture field; therefore their employees will continue to patronize the stores as before.

One should also determine whether or not these industries are of a permanent nature or are likely soon to die down or to shift. An air of prosperity may be given by temporary industries, and a shift in these will destroy what appeared to be a steady source of trade. One factory may be poorly financed; another may be making a product that is becoming less popular, for example, pianos that are being produced in a radio age Neither of these industries offers a promise of permanent prosperity to a community.

Assurance of the future growth of a city's industries will justify the opening of a store when present conditions are not especially promising. The advantages of an early start and growth along with the development of the city's industries come to him who can sense this future business development. Naturally a growing city is conducive to increase in the store's business.

Some communities, such as school and tourist towns, enjoy a seasonal prosperity. The merchant, in determining the worth of such a town, must remember that trade is not steady throughout the year but must be secured largely during certain months.

The general spirit of the town should be noted Some communities are progressive, whereas others tend to remain largely the same year after year. By investigating the public-school system, the activities of the commercial and civic associations, and the general appearance of both the business and the resi-

[1] In 1913 the orange groves of Los Angeles County suffered a disastrous freeze. Realizing the harmful effect of this blow to their chief source of income the retailers and other business firms of Los Angeles deliberately planned to diversify the business interests of that county So well have they succeeded that today they claim to be the first agricultural community of the United States as well as its fifth industrial community.

dential parts of the city, one can judge a town's progressiveness At the same time, the attitude of stores toward each other should be noted. Do the stores compete in a friendly way and cooperate in certain undertakings, or is there cutthroat competition among them? Not all communities realize that, through cooperation among its merchants, a reputation can be built up in the surrounding territory that such a town is a good place in which to trade. This gives each of the merchants a chance to secure a greater volume of business, which is not gained at the expense of his neighboring merchants but comes from the greater number of people who look to that community as their trading center.

Often the rapidity of growth in population is linked with the progressiveness of a town. This increase in population should be noted over a period of years. Has the growth been fairly steady? If there is only a recent growth, it must be scrutinized more carefully. What is the reason for it, and is there a reasonable promise that it will continue in the future? In some cases a city that has been showing little or no growth in the past may show signs of awakening. Such a case would have to be studied with more care than would a city that has actually grown.

Potential Trade Territory.—An important factor in the present extent and future development of a city's trade is its transportation facilities. At one time, people from outside the city used the railroad when coming in to shop. Although this is much less generally true today, yet the number and importance of railroads entering the city have a bearing on its industrial development and growth in population. This, in turn, is related to the volume of retail trade. The retailer's immediate interest is in finding means of getting people from the surrounding territory into his town to trade. He has learned that, the better and the more numerous the highways leading into the city, the greater the number of people from the surrounding territory who can be considered as potential customers of the store. Each highway that radiates from the city taps a new territory and brings it into possible reach of the store.

Retailers differ in defining the limits of a city's trade territory.[1] In some instances, this may be regarded as the corporate limits

[1] A picture of a city not as one market area but as many markets is shown in Frank R. Coutant, "Finding Your Market in a Metropolis," *Advertising and Selling*, March, 1940, p. 38.

itself as in the case where suburban towns are grouped near a large city. In other cases, people within a radius of 200 or more miles may look to a city for many of their retail purchases. Younker Brothers has a sizable number of accounts in each one of the 99 counties of the state of Iowa. Burdine's of Miami advertises in certain national magazines. The average town, however, will draw trade from a more limited area. An investigation will reveal to what extent people are coming from the adjacent rural territory and from near-by towns.

The potential-trade-territory analysis should include a study of agricultural or industrial conditions, the number and nationality of the people, and their approximate annual income and buying habits. If the region analyzed is a one-crop agricultural territory, it has the same disadvantages as a one-industry city. Its people may be large customers of mail-order houses, or the stores already in the territory may be progressive and satisfactorily serving their communities. Other questions to be asked are: Can this territory be reached through city newspapers, local newspapers, or direct advertising? What cities and towns compete for its trade?

The potential buying power of the community should be estimated. Statistics on industrial pay rolls, bank deposits, types of home, rentals, number and kinds of automobiles, use of electrical equipment, and sales of different types of magazines will all help in supplying information. It is not so important to get the average income of a community as it is to get the number of incomes in different groups divided according to amount. Where the incomes can be graded and the approximate number in each group can be ascertained, the potential buying power can be better understood.[1] The proportion of incomes falling into the various classes will give one indication of the type of merchandise that the store can carry. For instance, if there are many people receiving large incomes, this means that there are many families that are potential buyers of expensive merchandise.

Communities have certain characteristics just as people do. A community may have the financial power to buy expensive and exclusive goods and yet may not do so simply because it has been the custom of the people to buy carefully and moderately.

[1] STACKHOUSE, WAYNE H., "Measures of Purchasing Power," *Indiana Business Studies*, 18, 1939.

Where there are many people who have leisure as well as financial means, there is likely to be a market for exclusive merchandise. Where the people are widely traveled, fashion will probably play an important part in their purchases.

Knowing the income of his community, the merchant will be interested in the amount that will be spent for his product. Various studies of the family budget by individuals and by governmental agencies have been made and will prove helpful reading for the merchant.

An Economic Need.—Another important question concerns the stores already in the field and the way in which they are serving that territory The fact that there seems to be a sufficient number of stores in the community does not in itself prove there is not an economic need for another one. Are the stores now there adequately caring for the present trade? If not, it is easy to see that the new store can find a place. However, if they are apparently caring for the present trade and the saturation point seems to have been reached, a close investigation may show ways in which the new store can better satisfy the present or potential retailing needs of the community It is possible the present stores do not properly interpret the fashion demands of the community. The financial strength, the local reputations, and the buying, selling, and general policies of these competitors should be studied

Some merchants locate without giving any attention to the economic need for another store and, as a result, find out too late that the community does not need their store. William T. Grant, chairman of the board of the W. T. Grant Company, says, "Unless a chain store system is established to meet a real economic need, its outlook for a successful future is very dubious." This same thought applies to the individually owned store. Many a retail failure has its underlying cause in the fact that there was no economic need for such a store in the community.

CHOOSING A SITE

Having studied the advantages of different cities and having chosen the one that seems the most desirable, the prospective merchant must then find a location for the store within that city.[1] It is of great importance that the logical site should be

[1] "How a Chain Chooses Store Location," *Progressive Grocer*, March, 1940,

chosen, for it is hard to move a retail business once it has become established.[1] So the site must be chosen with the future as well as the present in view. Many failures are due to a poorly located site. Location is a factor that is considered by the wholesaler's credit man when he is passing on the retailer's line of credit and by the banker when he is asked by the retailer to make a loan.

Type of Goods.—Different kinds of retail establishment demand different locations. The predominating type of merchandise handled in a store has an important bearing on the selection of a site. Some analysts have divided stores into those handling convenience goods and those handling shopping goods. Others have made a third class—stores handling specialty goods. Convenience goods are those which ordinarily will be purchased at frequent intervals, at the most accessible place and at a small price per unit. Because people ordinarily buy this type of merchandise at the most convenient store, the store should be located close to the people, as are the neighborhood shops, or where the people pass most frequently, as are the corner cigar stores.

Many convenience goods are bought on impulse and are called "impulse goods" The customer notices them in the store and buys them because of having seen them, not because he came into the store with the intention of buying them. It is said that Mr. Woolworth believed that 90 per cent of the purchases made in his stores were goods bought on impulse by customers who happened to see these goods and so purchased them there without having had such an intention when they came into the store.

Shopping goods are those in the purchase of which one wants to compare values, prices, and styles. Ordinarily, these goods are of a higher price per unit than convenience goods, and the customer will make a special trip to several stores to inspect them before purchasing. Because of this comparison habit, such stores tend to group themselves in what is known as the shopping district. Because their goods are of a larger per unit price, the sales to each shopper are not so frequent. Thus, such stores must make their appeal to many shoppers and usually expect trade from a large area There seems to be an increasing tendency to shop around to compare prices, assortments, and quality. Being near another shopping store makes it easy for its customers also to visit your store in their shopping.

[1] The following discussion also applies to a store that is planning to change

Specialty goods are usually of a high per unit price and are not frequently purchased; in selling such goods, emphasis is placed on style, quality, exclusiveness, or something other than price, which induces people to go out of their way, if necessary, in order to purchase at the store selling these articles The shop that handles specialty goods chiefly tries to build up a reputation or an atmosphere around it that will lift it above price competition and shopping Such stores demand a wide trade territory but not a shopping site; hence, they are often located on a high-class side street near the shopping center.

Though most stores carry goods of all three classes, one class usually predominates to such an extent that we can speak of the store as a "convenience" store, a "shopping" store, or a "specialty" shop. If it is remembered that these different types of store demand different types of site, an analysis can be made of the possible sites with this factor in mind

Traffic Arteries.—Ralph Waldo Emerson said that if the maker of the best mousetraps in the world should live in the heart of the forest the world would beat a pathway to his door But this is not true of retailing. A store cannot be located anywhere and expect the world to come to it Its location must suit the convenience of its customers. It must be located by "the side of the road where the race of men go by." To a certain extent only can a greater volume of advertising make up for an inferior location.

Accordingly, one of the first things to consider in choosing a site are the arteries of traffic that lead to it. This traffic includes street cars, busses, automobiles, and pedestrians. By which of these ways do the prospective customers come? What proportion of the store's sales will be accounted for by each type of traffic? Studies[1] that have been made in Washington, D.C., and in Kansas City, as well as in other cities, show that automobile customers purchase the most goods in dollar values, if not in number of purchases. An exclusive specialty shop will find in most cases that its customers come by automobile. So a street off the car lines or bus lines is likely to be chosen, for such a location will be more convenient for those driving up in their cars. Such a street may have less stringent parking regulations and more parking space.

[1] Studies made by Miller McClintock of the Albert Russel Erskine Bureau with Harvard University.

A location at an intersection of streetcar lines or bus routes is often considered desirable. The desirability of such a location, however, depends on an analysis of the streetcar or bus traffic. What types of people use this means of transportation? This is largely answered by noting the territory that these car lines or bus routes tap. If they serve the poor or foreign sections of the town, they will discharge this type of people at the intersection. A store that wanted to appeal to the wealthier class would not find that that intersection gave it the type of customers it expected to serve. The nature of the district from which the streetcar or bus comes affects the value of the intersection. A department store or any other store that relies on all four arteries of traffic will desire to locate where people from all these four arteries can arrive.

Traffic Classification.—It has been said that the best location for a store is that which the most people pass.[1] But that is often not the truth—at least, not the whole truth. An analysis of the passing crowds must be made. The best location is the place passed by the most people who are potential customers of the store These may include only a fraction of the total number of passers-by. The number of potential customers can be determined by an actual count classifying the people who pass a certain point on one side of the street. Because different days in the week and different hours in the day show a great variation in the number and class of people passing, such a clocking of the traffic must cover typical times or a sufficiently long period so that its average will be representative.

A drugstore may be interested in the total volume of passers-by, for it can expect trade from all of them. Other stores may be interested in the numbers of the traffic according to sex. A men's clothing store is interested in the number of men passing, rather than in the total number of people, so is a cigar store. The owner of a department store or dry-goods store, on the other hand, is interested in the number of women passing, for he knows that women comprise the great majority of his customers.

It is usually important to classify passers-by not only according to sex but also according to their purpose in passing. A woman on her way to the matinee is not the best prospect for furniture,

[1] HUTCHINSON, KENNETH D., "Traffic and Trade Correlations: A Technique in Store Location," *Journal of Marketing*, October, 1940, p. 137.

nor is a man who is hurrying from his office to his suburban train. However, this woman would be a good prospect for a candy store and the man for a cigar store or newsstand. To a certain extent, the hours at which people pass indicate their purpose in passing Those going by early in the morning are on their way to work in the office or factory. Later in the morning come shoppers; at noon the people are going to lunch, in the afternoon come shoppers and playgoers; in the later afternoon, people are on their way home from work; and in the evening they are largely theatergoers. A chain organization that desired to count the women who would be potential customers clocked the women passing the prospective location between the hours of 10:00 A.M. and 5 00 P.M. It felt that those passing during these hours would be shoppers.

A third classification of those who pass might be made according to their financial ability to purchase Out of 100 women, apparently shoppers, who pass a given spot, only 10 may appear to have the financial status to patronize an exclusive jewelry store. One who is familiar with that type of trade can more accurately approximate the number who would be potential customers.

A certain chain company in clocking the women who pass a given point divides them into three groups—those who will normally enter the store, those who will look at the store windows and so may be brought into the first class, and those who will neither enter nor look. Their past experience has taught them what percentage will fall in each group, how many of these will make purchases, and how much, on the average, they will spend. If, out of 4,000 people passing, 7 per cent will enter the store and half of these will make purchases averaging $1.10 apiece, a store at that location will have an annual sales volume of $46,200 based on a 300-day year.

The general statement that the most desirable site is the one which the most people pass can be qualified by (1) the sex of the passers-by, (2) their purpose in passing, and (3) their ability to purchase.

Advertising Value.—A location on some streets is desirable because of the advertising value of the street An editorial in *The New York World* says, "The ability to engrave certain New York addresses on one's cards and letterheads has a value not to be measured by convenience or any tangible manner of desira-

bility. It is good advertising, whether of a social or business sort." Certain streets have become well known as the home of shops and stores selling high-grade or fashionable articles. As a result, in the mind of the purchaser any store on that street must be of the same high class. This factor is especially valuable for securing out-of-town trade, for those streets are usually the ones everyone knows For example, a Michigan Avenue, a Fifth Avenue, or a Lincoln Road location has the advantage of this ready-made reputation. The property owners on certain streets have endeavored to give their street distinctiveness by having it brilliantly lighted Washington Boulevard in Detroit claims to be the "brightest street in the world"

A chain organization may pay a higher percentage for rent in a downtown location than it would for a suburban location because of its greater advertising value. The downtown store creates a business for all the units of the chain in the city.

The general surroundings of a location influence its worth either for good or for bad. If the stores and buildings around it have a high-class and prosperous air, the location will have a similar appearance. If one side of the street has a more prosperous appearance than the other, people will prefer to walk along that side and will associate with the stores on that side of the street a greater prosperity than is attributed to those of the other side. When there are empty and unattractive buildings around a certain site, the location is adversely affected. The apparent stagnation will permeate the site and detract from it no matter how it is itself improved. A vacant storeroom next door or near by gives the same impression Merchants have frequently used the windows of vacant buildings in the neighborhood for display purposes, not only in order to add to their display footage but also to eliminate partly the impression given by an adjoining vacant room. It is said that one large city in the Middle West has an ordinance compelling every owner of an empty store to give it an attractive appearance. In another city the local manufacturers' association arranges displays in the windows of vacant store buildings This not only increases the attractiveness of the business section but also is a form of publicity for these manufacturers.

If there have been past failures on a same site, an unfavorable impression remains in the minds of many people and is associated

with any new enterprise starting there Thus, a site may become a "hoodoo," not through any fault of its situation but because of the memory in people's minds.

A bank, mortuary, or church does not add to the shopping value of adjoining property for most types of store

Retail Grouping.—There is a tendency for certain types of retail store to group together. This seems to be profitable for the merchant and is convenient for the customers. This grouping takes three different forms Stores of the same general class of trade but each offering a different type of goods are often grouped together [1] Grocery stores, meat markets, and bakeries are all selling foods; yet each is of a different type. Dry-goods stores, millinery shops, jewelry stores, and shoe stores often are grouped because they make a common appeal to one who is thinking of clothes and adornment Each of these stores helps the other in creating demand. The president of a drug chain says that he always prefers a location between two chain grocery stores because of the large number of people they attract and put into a buying mood

A second form of grouping is that of competitive stores. It has been said that big stores like to be in big company so that they can benefit by each other's business-getting activities. There is no store that can expect to gain for itself all the benefits of its sales-promotion activities; a portion is bound to seep out to its competitors. It, in turn, benefits from this seepage from its competitors. Women, especially, like to make comparisons and consequently like to trade in a district where it is easy for them to make these comparisons. Thus stores selling shopping lines tend to group together, for several such stores will attract more trade than can one store. In almost any city the department stores are grouped together; this makes shopping easy. Every city has its automobile district in which are grouped the various automobile-selling agencies. Five-and-ten-cent stores usually locate close together; this is helpful to each store rather than harmful, for each helps draw to that district the types of people who patronize such stores. It is said that Marshall Field and Company once gave Mandel Brothers a 99-year lease on a piece of property adjoining the Field store. In explanation, Mr. Field

[1] RATCLIFF, RICHARD W., *The Problem of Retail Site Selection*, University of Michigan, *Bureau of Business Research*, 1939.

said the Mandels were good merchants; hence, they would help in attracting trade to that location. There is, however, a limit to the benefits to be derived from the grouping of competitive stores. There is only so much possible trade to be divided. When the additional store does not attract new trade but simply divides the present trade, then it is detrimental rather than helpful to its competitors.

Grouping for borrowed support is a third type of grouping Specialty shops for women often like to locate near department stores so that they may benefit by the advertising and window displays of the department stores. These smaller stores get a certain amount of overflow business from those who cannot be satisfied in the department store. Such stores must be of approximately the same grade, for people will go from one store a little above or a little below another, but not to one a great deal different.

Sides of Street Vary.—The opposite sides of the same street may have different values. When a person alights from a streetcar or bus, his first impulse is to get to the nearest sidewalk. As a result, the location directly facing the car or bus stop is the most desirable one Whether the car stops before or after crossing an intersection affects the relative value of the two locations. In other instances, one side of the street has a greater value for certain types of store simply because the customer expects to find them there. Past years have taught her to find them there.

The sunny and shady sides of a street usually have a different value If a store in the northern part of the United States makes most of its sales in the winter months, that side of the street which will be sunny in the afternoon may be preferable. However, in most instances the shady side of the street is the more desirable, both for the shopper and for display. Because women do a great deal of their shopping in the afternoon, a walk on the sunny side of the street during the warmer weather will not appeal to them. The factor of desirability for window display is not very important where the tall city buildings shade both sides of the street; however, in other places the strong sunlight often harms the display. It will fade many delicate dress materials, draperies, and upholstering. Reflection from the plate-glass windows or from tin, glass, or aluminum displays in the windows is very displeasing to the window shopper.

Rental Values.—After analyzing the different available sites according to the various points that have been mentioned, the locations most desirable for a given type of store can be found. It would be only natural if the rents for these were relatively higher If the store in this better location can make sufficiently greater sales and larger profits, it will more than repay the higher rent One must estimate the amount of business possible in the different locations and see if the difference in rent will be justified The heavier volume of business done in that section composed of women's stores is the reason for the higher rental value.

A corner location is more valuable than an inside one; for it has a greater amount of display space, and people on two arteries of travel can see the windows and be attracted into the store by them. Such a location is a natural shopping point. It is the merchant's problem to determine whether these advantages are worth the extra rental charged for the corner locations.

Shopping centers of cities gradually shift during the years. The growth of population and new residential districts, with the accompanying changes in transportation facilities, either lead to the development of new shopping centers or determine the direction of the movement of the old shopping center. The direction of growth is an important point to consider, for it shows where the shopping center may soon be. Locations in the path of this growth will have a higher rental value than in the neighborhood from which trade is passing. Over a period of years the better stores tend to move toward the best residential district following the streets carrying the heaviest traffic.

From various studies that have been made and from his own previous experience, the merchant can estimate the amount of rent he can afford to pay for a location. If he believes that in a certain location he will be able to do an $80,000 volume of sales a year and that he will be justified in spending 3 per cent of his net sales for rent, then he knows that he cannot pay over $200 a month rent for that location.

Outlying Branch Stores.—A recent development that promises to grow in importance during the coming years is the tendency of metropolitan "downtown" stores to open branches in the outlying districts. This development has increased the importance of suburban shopping centers. Many secondary shopping centers are being chosen by the big downtown stores as likely

places in which to expand. In some cities, this movement is seen only among the specialty stores, whereas in others the department stores also have branched out. Before opening such branches, the store needs to make a careful market analysis of the new territory. What is a good location for one store may not be for another. It must study both the present and future populations of the territory. The Federal Census of 1940 shows a shifting in the location of markets away from the urban centers. A number of our large cities even lost population owing to the decentralization of population in these metropolitan areas. At the same time, suburban areas have been growing. If this trend continues for some time, it will make these suburban areas increasingly desirable for branch-store locations.

Such a store as Marshall Field and Company has not only that great retail institution in "the Loop" but also branch department stores in Evanston and Oak Park, as well as a shop in Lake Forest. Other large stores that have developed outlying branches include Strawbridge and Clothier, Altman's, Best, and James G. Hearn Saks-Fifth Avenue has a number of winter and summer resort shops. Wm. Filene's Sons Company has seven branches and four summer resort shops The plan of having branch stores will no doubt in time be accepted by many of the leading stores in the larger cities of the country.[1] It is a case of the mountain coming to Mohammed.

The chief condition that has led to this development is the traffic congestion in the main business district.[2] The traffic problem has become such a serious one in every city that many people do not care to drive into the main business district if it is at all possible to avoid it; this is especially true of the woman shopper. In view of the difficulty of finding a place to park and the many police restrictions governing these places, it is not surprising that the shopper is unwilling to drive downtown for her shopping trip Some stores have attempted to lessen this disadvantage of their downtown location by providing parking

[1] RUTTENBERG, SELMA, "Branch Store Developments among New York City Stores," *Journal of Retailing*, February, 1941, p. 4. EICHELBAUM, FREDERICK, "Where Is Detroit's Downtown Area Going?" *Women's Wear Daily*, May 6, 1941, p 26

[2] The attempt of a main shopping district to protect itself is described in "Downtown Chicago Checks Decentralization Tide," *Retail Executive*, Nov. 20. 1940. p. 2.

space for their customers or by paying the cost of parking their cars in garages while the customer is in the store. Some stores even have paid the traffic fines of shoppers. Gimbel Brothers in Philadelphia and Stix, Baer and Fuller Company in St. Louis provide parking garages for their customers' convenience. Merchandise purchased in these stores is delivered every half hour to the garages. Customers are charged for parking but not for the delivery of merchandise to the garage. Good parking facilities are an extremely important asset for any store.

In addition to the better traffic conditions found in the outlying districts, there is also the advantage of a much lower rental charge than in the main business district. Certain other expenses should be lower likewise, for the administrative staff at the main store serves the branch store also. As a result, many stores find that the profits made by their branch stores are larger than those made by the parent store. The desire to increase the sales volume is another reason for this expansion. The branch store will attract people who would not have gone to the parent store in the main shopping district; in this way, it increases the total number of people served by the stores

CHAPTER IV

STORE LAYOUT

Proper Layout and Equipment Pay.—The modern merchant spends time and thought on the general arrangement and equipment of his store because of the growing weight of evidence that such attention pays.[1] The old stores of yesterday just grew and took over adjacent store buildings as they were needed. Often the floors were on different levels, and it was almost impossible to direct people through the store. A definite layout plan was seldom, if ever, considered. Too many stores, as sales volume has increased, have added to their selling space and equipment in a haphazard manner. A store properly laid out and equipped tends to make shopping easier for the customer and in many cases reduces expenses for the store

Where it is impossible to add to the floor space, a rearrangement of the equipment may permit increased sales in the same space. One store in altering its first floor layout eliminated all selling counters, thereby increasing the selling space by one-third, despite the addition of a large area for reserve stock. Even in a new store the original layout may be inferior simply from lack of conscious planning and designing. As a result of this poor arrangement, there is an annual loss of many dollars to the store, dollars that might have increased the net profit A little extra expense devoted to planning needed changes in the layout and equipment of the store will bring increased profits day by day

Store Front.—A person's first impression of a store is given by the store front [2] The general style of retail-store architecture has changed from time to time during the history of this country. At present an increasing number of stores are using a modern

[1] STRAUS, EDITH, "The Plan behind the Plan Counts in Store Modernization," *Bulletin of the National Retail Dry Goods Association*, July, 1940, p 22.

[2] Sometimes an entire section of a business district tries to improve its appearance. "Oakland Keeps Shoppers Coming Downtown," *Retail Executive*, Feb 21, 1940, p 2.

motif in planning the store front as well as the interior of the store [1]

The front of a store should tell a story about that store and its policies and merchandise The dignified simplicity of Marshall Field's speaks of the conservatism and substantial history of that store. The standardized fronts of Woolworth stores proclaim from coast to coast the economy of large-scale merchandising So far as possible the store front should typify the merchandise that is being offered within the store [2] A store selling oriental rugs creates an oriental atmosphere by incorporating in its store front grilled ironwork, inlaid mosaics of colored tile, and two hanging lanterns like those found in the temples of the Far East

In some high-class suburbs of our larger cities, attempts have been made to create groups of retail stores whose fronts have a common architectural design [3] This common design tries (1) to conform to the prevailing type or school of architecture found in that particular suburb and (2) to emphasize the small-shop character of the stores

The two important parts of the store front are the entrance or entrances and the display windows. Much time has been given in the modern stores to the proper location and designing of entrances. Their number, location, and design should be planned with the goal in mind of making entrance to the store easiest for the greatest number of people. This may mean the addition of other doorways or changes in location of present ones. The number and location of entrances affect not only the ease with which customers can enter the store, but in addition the distribution of traffic within the store. An inadequate number of entrances or poor location of the available ones may make it practically impossible to get proper distribution of consumer traffic in the store. The physical features of the doorway should be designed to facilitate entrance. This includes the elimination of any steps, for they are obstacles to entering the store. A sloping entrance likewise is bad, especially in wet and slippery

[1] *Women's Wear Daily*, Feb 24, 1941, p. 26.

[2] Of course, this often is not literally possible, especially in stores handling many different lines of merchandise.

[3] In some case the common architectural design extends to the entire building.

weather. The door into a store usually is of one of the three following types: (1) an ordinary hinged door; (2) a revolving door; (3) a double set of swinging doors with a heated vestibule between them. The first type is used in most small stores. The second and third types are common in the larger stores; the third type is able to handle a heavier traffic The use of swinging or revolving doors increases the value of the selling space near the entrances, because the incoming air is so tempered that the space is productive in cold as well as in warm weather.[1]

The display windows are a very important part of the store front, because the window-display space is usually the most valuable advertising medium that the store has The store front should be designed so as to give as much window space as possible. The space provided naturally is limited by the width of the building, number and size of the entrances, and other physical characteristics of the store front. A store may increase its display space by having a recessed entrance with windows facing this entrance

Interior Layout.—In planning the interior arrangement of the store,[2] the retail functions for which space must be provided fall into two groups: (1) selling; (2) nonselling[3] The planning of the layout for selling functions involves the location of (*a*) the regular selling departments and (*b*) the temporary special-sales merchandise, aisle tables, bargain counters or tables, and so forth The layout of nonselling functions includes the location of (*a*) the nonselling departments, such as receiving and marking room, delivery department, stock rooms, and office space, and (*b*) store facilities such as stairways, elevators, escalators, and the like.

Value of Different Locations.—Rent must be paid for all space in the store, and the payment must come out of sales; therefore, the merchant is faced with the problem of making the various parts of the store pay their shares. Each department in the store and each display case, section of shelving, and table in that department must bear its share of the rent

[1] This is especially true if an arrangement of two sets of doors with a heated vestibule between them is used

[2] "Tests before Changes," *Retail Executive*, Aug. 7, 1940, p 6

[3] For a detailed discussion of interior layout, see Paul H. Nystrom, *Economics of Retailing*, Vol. II, Chap. 8

The interior of a store is not of equal value per square foot. Therefore, the merchant cannot properly divide or apportion the entire rent among the various departments simply by dividing the amount of the rent by the number of square feet of space in the store and then applying this rate per square foot to the amount of space in a particular section. Nor can the rent per floor be properly determined in a store with several floors simply by dividing the total rent by the number of floors.

In a store having several floors the main floor is considered much more valuable than any other floor. The main floor is the easiest of access to customers and has the greatest amount of traffic; therefore, it offers the greatest possibility for sales and should bear a comparatively large share of the store rent. The farther a floor is from the main floor, the less valuable is its space and, as a result, the smaller the percentage of the total rental charge that it should bear. In spite of stairways, elevators, and escalators, it is not easy to entice people beyond the main floor

Even different parts of the same floor have different values. On the main floor the display windows have the most valuable space. Next in order of value comes that space immediately in front of or at the right of the entrance This is due to the fact that the most people visit or pass this space. On this same basis of determination of value, the back part of the floor is less valuable. If a merchant will make a plan of his space and divide it into sections, he then can divide the total rent among these sections according to their relative worth This will give him a basis for allocating the rent among the different departments.

Some merchants have a store space too large for the amount of business done This means that the productive part of the space must bear the excess burden of the rent paid for unnecessary space. If a portion of the room can be walled off, for example, by moving up the back wall, the extra space can at times be sublet and the rent bill thus cut down. The smaller selling floor may also be much more convenient for both customers and salespeople.

Location of Nonselling Activities.—The nonselling departments are located, as a general rule, in the less accessible parts of the building. Storage and delivery may be provided for in separate

buildings by the larger stores.[1] The nonselling departments can do their work there as well as they could in the more valuable space that is occupied by selling departments. The location of nonselling departments must be planned along with the location of the selling departments and the general traffic lanes in the store In some cases, changes in the location of nonselling activities may bring a much better distribution of store traffic, with a resultant increase in sales in certain selling divisions. For example, one store moved its executive and credit offices from a nonselling floor to the rear of the homewares floor and found that the new arrangement caused more customer circulation and increased sales on the homewares floor.

The correct placing of the stairways, elevators, and escalators necessitates a careful study of customer traffic in the store Good location of these facilities helps in the proper distribution of traffic on the main floor and greatly increases the selling value of the upper floors. The location of stairways, elevators, and escalators must be planned with respect to the main traffic lanes to be developed In the modern store the general scheme is to give the entire floor traffic circulation instead of developing one main entrance and a beeline aisle to the elevators The location of elevators and escalators must be considered along with the number and position of the entrances to the store. Naturally, there is a limit to the extent to which people can be detoured through the store in order to reach the stairways, elevators, escalators, or some special service or selling department; but the better the circulation, the better the sales per square foot for the entire floor will be. The placing of stairways, escalators, and elevators in a relation to each other that will bring about a division of traffic among them is an important factor in developing upper-floor space As these facilities are the entrances to the upper floors, their location affects the traffic aisles or lanes in the departments on these upper floors.

Factors to Be Considered in Location of Selling Departments.— In allocating space to the selling departments of a store, there are four factors to be considered.[2]

[1] A good description of such an arrangement is found in *Women's Wear Daily*, Feb 17, 1941, p 25.

[2] We are assuming that the merchandise is grouped into definite selling departments In a new store the first step in planning layout probably

1. Ability of the department to produce sales volume per square foot
2. Pleasing appearance
3. Convenience of customers
4. Facilitation of selling

1. *Ability of the Department to Produce Sales Volume per Square Foot.*—Because the various sections of the store vary in value, the departments should be located only after a consideration of their sales and profit possibilities. Assuming that other factors are equal, the most valuable space should be allocated to those departments with the highest sales possibilities. As a rule those selling departments that produce lower sales volumes per square foot belong in the less valuable space. Detailed statistics have been gathered in several department stores to show the sales per square foot possibilities of the merchandise departments. Although the use of these figures is subject to many possible limitations, especially when applied to other stores, they do give some idea of the relative sales possibilities of different selling departments. In some instances, departments may be located in sections more valuable than is justified by their present sales volume because the store wishes to encourage an increase of business in these departments.

2 *Pleasing Appearance.*—The modern store in planning the location of the merchandise departments must remember the importance of a pleasing appearance. Because it is selling to women, the layout must combine utility with eye appeal. The impression that the customers or prospective customers gain is of special importance in stores that sell on a quality basis to a high-class trade. The customer's first impression upon entering the store is of particular importance; therefore, in allocating the space near the entrances, the display possibilities of the merchandise in the various departments must be considered. From among those departments whose sales possibilities justify location in the most valuable space, those that will make the most pleasing and effective display should be selected for the sections near the entrances. For example, a glove department lends itself to a more pleasing display than a knit-underwear department can achieve and therefore should be located nearer the entrance.

---

would be the grouping or departmentizing of the goods. For a discussion of the process of departmentizing, see Chap. VI.

A pleasing appearance in the layout of the selling departments makes shopping more pleasant. One development in recent years that seems to be partly due to the desire to make shopping pleasant for the consumer is the trend toward the installation of "small shops" within various departments of the store, for example, a Campus Shop, a Cotton Shop, a Sorority Shop, a French Shop or a Sportswear Shop within a given department. The small shop tends to focus attention on itself and its merchandise.

3. *Convenience of Customers.*—The layout must be planned with the idea of making it easy and convenient for the consumer to buy. One basic consideration is the distribution of customer traffic throughout the store by means of layout arrangements. If the layout is not planned so as to help distribute traffic throughout the store, most customers will follow the natural traffic lanes that are established between entrances to the store and the elevators, escalators, stairways, or special departments of the store. This frequently leads to congestion in certain aisles, resulting in crowding and bustling, which are distasteful to the modern customer.

The problem of providing proper distribution of traffic must be handled in each store according to its conditions and needs; however, certain difficulties are common to many stores. For instance, the natural tendency is for customers to turn to the right on entering the store One store offset this tendency and balanced aisle traffic by moving the center fixtures six inches to the right This tendency may also be offset and a more even distribution of the traffic obtained by putting popular items to the left and making the display on that side especially attractive. As most people do not go more than 20 to 25 feet in a store before they wish to turn, the layout plan must provide ample provision for the flows of cross-traffic in the store. Frequently, customers can be attracted to certain departments or sections where the traffic ordinarily would be light by means of certain suggestive devices. One store that desired to attract people to a particular section placed a strip of red carpet from the elevator to that department There was no sign directing people in that direction; yet the store reported that this simple expedient sent people in that direction. It was just a matter of indirect suggestion.

Wide and straight aisles give customers a change to move through the store without inconvenience. The layout planning should also include a determination of the desirable way in which to locate the counters with respect to the traffic. Some stores place the counters crosswise to the traffic; thus the customers in the side aisles are not bothered by the stream of traffic passing down the main aisles. Other stores prefer to have their counters parallel with the main aisle, for this gives the store a less crowded appearance and is of greater value for display purposes The layout should be designed so as to permit as full a view of the entire floor as is possible. This helps the customer in locating other departments and also gives an impression of spaciousness

If it is the accepted custom in a city to find certain merchandise in certain locations in the stores, customers naturally expect to find it there. This must be kept in mind if a store thinks of placing merchandise in locations different from those in the other stores of the city A layout radically different from that in other stores of a similar type may be an inconvenience to customers, especially those shopping in the store for the first time

Because most shoppers in a department store are women, men do not feel at home there and like to get in and out as quickly as possible. If a store is trying to encourage the masculine trade, it provides a separate entrance for the men's department or places that department in such a position that men can get in and out as nearly as possible unhampered by the throngs of women shoppers.

For the convenience of his customers a retailer might install occasional chairs. These would make the shopping expedition much easier, especially for those shoppers wishing to purchase articles that require considerable time for proper selection.

4. *Facilitation of Selling.*—Planning the layout of the selling departments so that sales are facilitated tends to bring two desirable results: (*a*) an increase in the amount purchased by customers; (*b*) a decrease in selling and other operating costs.

Most people shop around and do not give one store all of their trade. This necessitates the use of selling strategy to get the customers to purchase more than they had intended when coming into the store. Increasing the amount of the average sale is the object of many of the newer ideas in store layout and

traffic arrangement. Through the grouping together of related items or departments so that customers are led naturally from one line of goods or department to another, the customers may be encouraged to make additional purchases, which, of course, increase the amount of the average sale made by the store. An Eastern store had a 100 per cent increase in the sale of neckwear and an almost equal gain in the handkerchief business when these two departments were moved from the main floor to a position near the dresses in the ready-to-wear department on the second floor.

The grouping of related merchandise and departments facilitates ensemble selling, which increases the amount of the sale.[1] If a customer buys a dress, the layout should make it easy for her to purchase shoes and hosiery to go with it Or if the purchase is a table lamp, the grouping of departments may lead her to buy a table cover or a vase as well. If for some reason it is undesirable or impossible to group related departments, additional purchases of goods in other departments can be suggested by sample displays of the goods in allied departments.[2] For example, if the customer, while purchasing a dress, sees a shoe display in the dress department, she is given the suggestion of an additional purchase.

The arrangement of the merchandise in a particular department so that those goods most closely related are grouped together leads to larger purchases by the customer. The toy department of a large department store arranges its extensive Christmas layout so that those toys that appeal to children of the same age will be grouped together Thus, all the toys surrounding the customer are potential purchases and so suggest additional purchases on her part.

The importance of increasing the average purchase has been stressed in the previous discussion. The following table shows how the annual sales of a store can be increased by raising the average purchases even a small amount:

[1] Wolfe, Harry Deane, "Think Selling before Buying for Successful Ensemble Volume," *Women's Wear Daily*, Apr. 9, 1941, p 34, Apr. 10, 1941, p. 35

[2] Of course, these sample displays might be used even if the departments were closely grouped in location, although there would in that case be less

Daily customers	Increase in annual sales, based on 310 business days in a year	
	Increasing average purchase 10 cents	Increasing average purchase 25 cents
50	$ 1,550	$ 3,875
100	3,100	7,750
150	4,650	11,625
250	7,750	19,375
500	15,500	38,750
750	23,250	58,125
1,000	31,000	77,500

Because this increase in the average sale ordinarily is obtained with little increase in operating expenses, it is likely to mean a considerable increase in the net profit

The effect of store traffic upon the sale of various types of goods must be considered in planning layout from the viewpoint of facilitating selling. For example, novelties and impulse goods may sell best where traffic streams are the heaviest On the other hand, merchandise that requires deliberation in buying should be kept away from the busy aisles. In some instances, merchandise is so located that it will change store traffic in a way that will increase the sale of other merchandise. A survey conducted by a retail-service agency showed that of the people who enter an average store not one-fourth go more than halfway back in the store. Placing the impulse and novelty merchandise toward the front of the store and the necessities toward the rear or on an upper floor compels the customer to walk through the former to get to the necessities. Because the customer usually has her mind made up to buy the necessities, she will go wherever they are to be found. Thus they can be used as bait to draw the customer past the higher profit items

In addition to encouraging purchases on the part of customers, a layout planned to facilitate selling also tends to decrease selling and other operating costs. The saving of time and energy of the salespeople should be considered in planning the location of departments and the layout of merchandise within a department. One store rearranged the dresses and coats in its ready-to-wear

change resulted in greater convenience both to customers and to salespersons. Other rearrangements were made that enabled salespeople in one department to work also in other departments, the operating costs of the departments being thus reduced. Adequate and easy supervision of selling operations should be considered in planning the layout of the selling floor.

Aisle Tables.—Stores have widely different policies in the use of aisle tables In some stores, such tables are used primarily for clearances of goods at reduced prices; thus, they are considered bargain tables In other cases the aisle tables are used primarily to display new or seasonal merchandise at a popular price. Some stores have aisle tables as a permanent part of their selling floor layout; others use them only occasionally, as, for example, in displaying goods during a special sale.

Those stores using aisle tables report a number of advantages from their use:

1. They are of service in selling impulse goods and low-priced novelty goods. Aisle tables provide an excellent chance for display where the customers can both see and handle the goods. Placing them where the traffic is heavy will remind many people of their need for the displayed merchandise or arouse a desire for it

2. Aisle tables are valuable for moving slow-selling merchandise This type of display calls attention to the unusual value of the offering and moves goods when display in the regular department has failed A certain lot of handbags may not have sold well; therefore, they are going to be specially priced. Placed on a table where many people pass, they will be seen by more potential buyers than would go to the regular department.

3 They help in selling specially featured merchandise. Some stores have trained their clientele to look on the aisle tables for new and unusual merchandise. This often assists the advertising of these goods in consummating the sale Such merchandise is not bargain or slow-selling merchandise, but rather some that has just been received or that has a particular appeal, as Fourth-of-July or Halloween novelties.

4. Aisle tables bring bargain hunters to the store and thus attract to the store people who might not otherwise enter. If the tables are put toward the rear, the arrangement gives these people a chance to see the other offerings of the store

5. Largely because of the above advantages, aisle tables bring an additional sales volume, most of which would not be obtained otherwise. The statement has been made that 90 per cent of the sales from these tables represent extra business not to be secured in the normal course of trade.

6. Aisle tables are used in some stores to direct the store traffic, for example, to draw people toward one side of the store or toward elevators and stairs. If the store feels that too many people are going to the right and not enough to the left, it may place toward the left of the entrance some aisle tables containing especially attractive merchandise. This will help divide the traffic more evenly.

Disadvantages of Aisle Tables—There are a number of objections to the use of aisle tables.

1 They tend to cheapen the store and its merchandise. Unless considerable care is given to the merchandise on the tables, it is likely to have an untidy appearance. People are continually handling the merchandise; it soon becomes disarranged and may become soiled or otherwise damaged unless the salespeople keep rearranging it. The aisle tables often attract a lower class of trade to the store, which may cause a loss of some of the store's regular clientele

2. The aisle tables often hinder the proper distribution of store traffic. When James McCreery and Company abandoned bargain tables, it gave as one objection to the tables the fact that instead of distributing traffic throughout the store they tended to check it on the first floor. The tables often add to the congestion in the aisles. The larger the crowds they draw, the more they interfere with the traffic in the aisles where they are located. It is possible that in some cities they may violate the municipal fire regulations.

3. Aisle tables may reduce the sale of regular merchandise in adjoining departments. The merchandise on these tables should be of a different character than that on the adjoining counters in order to lessen the distraction of attention from the regular merchandise. The tables may cause congestion in the aisles and so make it unpleasant for customers at the regular counters. This tends to lower the sales of these regular departments by lessening the number of regular customers at their counters.

In considering the desirability of the use of aisle tables in a store layout, due consideration must be given to the value of the space occupied by them. As they are usually located toward the front of the store or in other heavy-traffic areas, they occupy space of a high rental value. The sales of these tables should be compared with their share of the rent to see if they justify their use of the space. If aisle tables are located toward the rear of the store, they have a lower rent share to meet but they lose much of their selling power because of the relatively less dense traffic.

The desirability of aisle tables depends largely upon the store. In some types of store and with some merchandise, the aisle table may bring many additional sales with little if any disadvantage to the store; in other cases the use of aisle tables may be highly undesirable. Merchandise such as notions, work clothing, and "bargain" merchandise often is sold effectively on aisle tables; such goods as will be bought for "dress-up" purposes ordinarily merit more careful handling. For example, in a high-class men's furnishings shop in a college town, the display of neckties on aisle tables probably would hinder their sale The clientele would expect them to be displayed in a case and handled as if they were valuable

Though some stores have eliminated entirely the aisle table, most stores will find them of real merchandising value if they are used to accomplish a definite purpose and in a manner consistent with the store's merchandise and policies.

CHAPTER V

STORE FIXTURES AND EQUIPMENT

In recent years, merchants have been giving increased consideration to the provision of the proper fixtures and equipment in their stores. Along with the growing recognition on the part of retailers of the desirability of modern methods of store operation, there has been a development of great numbers of fixtures, appliances, and machines designed to perform or to help perform practically every type of work in a store. Even the actual selling of some lines can be done through the use of coin machines or other automatic selling devices.

In this discussion, some of the important types of store fixtures and equipment will be treated. No attempt will be made to consider in detail the many mechanical devices involved. As in layout, each store presents an individual problem so far as fixtures and equipment are concerned.

Stock Fixtures.—These fixtures include primarily the counters, shelves, and display cases. As efficient retail selling requires adequate display, well-kept stocks, and good salesmanship, the proper appearance, construction, and location of counters, shelves, and display cases are great aids in building sales volume. The fixtures render four services: (1) They store the goods. In many instances the fixtures provide much better storage than would be the case if the goods were left in the original condition in which they were received. (2) They protect the merchandise. This may mean protection against dirt, against soilage or damage from handling, or against loss through theft. (3) They display the merchandise. A comparison of the modern store with its modern fixtures and the old-time general store with its crowded shelves and counters would show the importance of store fixtures in the display of merchandise. The trend in the store of today is to select the type of stock fixture that will give the maximum amount of space to display merchandise, consistent with proper service and efficient planning of the store layout. Contrast the wooden counter, with its solid front, typical of the store of years

ago, with the modern glass showcase, which combines display and selling service features. (4) The fixtures aid in the selling of merchandise. This is partly due to the service just mentioned, that of making possible an attractive display In addition, however, the stock fixtures may aid in selling by being designed in a manner that permits the customer to handle and examine the goods when the salespeople are too busy to render immediate service In the self-service or semi-self-service store the stock fixtures are designed to facilitate the selection of goods by customers with little or no help from store employees.[1]

The chief factors that the merchant should consider in determining the type of stock fixtures for his store are as follows:

1. Class of trade A store has a personality just as does an individual The fixtures of the store should be in harmony with this personality. If a store sells to a very high class trade, the very finest fixtures may be required to fit the exclusiveness of the store Other stores demand plain fixtures to fit the economy personality of the store.

2. Type of merchandise. The nature and value of the merchandise handled may make the element of protection an important consideration in the choice of the stock fixtures Protection may be needed primarily against theft or largely against soilage and damage For example, a jewelry store must place great reliance on its store fixtures to protect the merchandise from theft, whereas in certain other stores it may be desirable to permit the customers practically complete freedom in inspecting the goods at first hand. Canned goods in a grocery store are sold from open shelving or other types of open fixtures, which probably would be highly undesirable in the case of many articles of clothing because of danger of soilage and damage.

3 Type of service rendered As a general rule, the investment in fixtures increases as the amount and kinds of services rendered increase. In many self-service stores the fixtures are reduced to the simplest form of shelves or counters. The amount and kinds of service given are related, of course, to the class of trade

[1] For a discussion of stock fixtures and their arrangement in self-service or semi-self-service food stores, see Carl W Dipman, and John E. O'Brien, *Self-service and Semi-self-service Food Stores* (particularly Chaps. 7 and 14), Progressive Grocer, 1940.

4. Importance of display. The importance of display in the sale of the merchandise is closely related both to the type of goods handled and the type and amount of selling service. If the merchandise is of a type that should be handled and displayed carefully in order to help maintain its quality appeal, a greater investment in fixtures is ordinarily justified Glass counters and other fixtures designed with the idea of high display value often bring additional sales that more than compensate for the extra initial cost. In the self-service or semi-self-service store the stock fixtures are ordinarily simple and plain in form but are designed to provide a merchandise display that will not only facilitate but also invite self-service on the part of the customer.

In selecting stock fixtures, the retailer should remember that his customers are buying merchandise, not the fixtures, and that therefore his investment in fixtures should not be too high. The problem of the average retailer is not one of creating a "show place" out of his store but rather of selecting the type and arrangement of stock fixtures that will be in keeping with his class of trade, the type of merchandise handled, and the display and selling methods of his store. In many instances a retailer may be able to make considerable improvement in the interior of his store at little expense merely by the removal of old unnecessary fixtures or by the rearrangement of the present fixtures.

In selecting the stock fixtures and in planning their arrangement, the merchant should provide, to as great an extent as is practical, for flexibility in their use For example, the selection of standardized fixtures facilitates their use in various parts of the store building in case it becomes desirable to rearrange the store layout The use of mobile fixtures and adjustable fixture units that can be expanded or contracted to meet varying requirements helps the retailer keep the fixtures adjusted to the changing needs of his business without the cost of expensive alterations or replacements of stock fixtures.[1]

The fixtures should be designed so as to give an easy, open view of the store.[2] It is best to avoid fixtures that break into the line

[1] HAMMOND, A EDWARD, *Store Interior Planning and Display*, pp. 17–18, Chemical Publishing Company of New York, Inc., 1939.

[2] Naturally, this principle is not followed in those stores where the tendency is toward merchandising in small individual shops, as discussed in

of vision. If the entire floor is visible, fewer salespeople will be needed. Such visibility also gives the customers the impression of larger size and more complete display.

Probably the most important change in stock fixtures in the past several years has been the great growth in the use of open-display fixtures as contrasted to glass cases or other types of closed fixture. The open-display fixture may be in the form of center or wall shelfing open to the customer, floor platforms upon which goods are displayed, top-of-counter trays or bins, display racks, or other special forms. Regardless of the particular form of the open-display fixture the basic purpose is to display the goods openly so that they can be seen, handled, and closely examined by the customer with little or no aid or interference from store employees.

This method of display, largely developed by the chain stores, particularly the limited-price variety store chains, has been adopted, at least to some extent, by practically all kinds of retail store [1] In many instances the adoption of open-display fixtures in place of glass cases or other closed fixtures has resulted in marked increases in the sales of the merchandise. The success of open display probably is largely due to the prominent or forceful display of the merchandise made possible by this type of fixture and to the opportunity the customer has of handling and examining the merchandise with little or no aid or interference from salespeople. Open display is apt to be particularly successful in the sale of goods bought largely on an impulse basis.

However, there are limitations to the use of open-display fixtures, especially when used for certain types of merchandise. In the first place, open display increases the losses resulting from shoplifting. The control over pilferage is largely a matter of eliminating high displays and the proper placing of fixtures and equipment so that an unobstructed vision of the selling floor is obtained.[2] Open-display fixtures are often designed so as to

---

Chap. IV. For a detailed discussion of shops within the store see *ibid.*, Chap. 10. A number of pictures are given of specialized shops or bars in various stores.

[1] In the drapery department in a Western department store, all counters were eliminated and over 1,400 different samples of drapery fabrics placed in open display by means of long rows of racks.

[2] DIPMAN, and O'BRIEN, *op. cit.*, p. 27.

permit free examination of the merchandise and yet so as to hinder the shoplifter. A chain store found that a 2- or 3-inch handrail around a table top reduced the losses from shoplifting by 85 per cent

Secondly, open display increases the losses from soilage and damage of the merchandise, resulting from its frequent handling by the customers. However, for many goods the increased sales resulting from the open display of the goods will more than compensate for the extra losses from soilage and damage.

The third disadvantage is that in the case of some types of store and certain lines of goods the open display of merchandise tends to cheapen the merchandise and the store in the eyes of the customers. Naturally, this is much more true with certain types of merchandise and certain classes of trade. A woman is apt to be less interested in a high-priced dress taken from an open-display rack than she would be if it were taken from a dress closet or cabinet. Many people have a very indefinite knowledge of quality, and as a result the manner of displaying and handling an article may greatly influence their opinion of its quality There are also some goods that require for effective sale special lighting or other special display effects that it is impossible to provide with open-display fixtures.

As a general rule, open-display fixtures are not well suited to the display of quality goods, which are sold on the prestige of the store; for dainty goods that will not stand rough handling and that require the benefit of good lighting; for small articles of high unit value that must be protected against shoplifting; and for sets or combinations of articles in ensemble, the proper display of which in relation to each other is essential to their attractiveness. On the other hand, such products as drugs of price appeal, many food products, hardware, small electrical items, many accessories and notions, and many items in men's furnishings are well adapted to sale by open display [1]

Store Illumination.—Attention should be given to the proper illumination of both the windows[2] and the interior of the store. Proper illumination includes the provision of the correct amount

[1] This list is not given as an all-inclusive list of items that are suited to open display. Also, in certain stores there may be special reasons against the open display of some or all of the items mentioned.

[2] For further discussion of the lighting of the store windows, see p. 396.

of light and the use of lighting fixtures well suited to the character of the store. Although much improvement has been made in store lighting during the past generation, a great many stores are still poorly lighted.

A well-lighted interior or window is of real advertising value to the store. It bespeaks the progressiveness of the management. The customer is attracted to the store that is properly lighted. The store employees may get accustomed to a poorly lighted condition, but the customer coming in from the bright daylight demands a well-lighted store.

The advertising manager of a large grocery chain makes this comment on the value of good lighting.

> The better lighted stores draw more people in and help sell them more goods when they come. A poorly lighted store doesn't appeal to a woman, and, everything else being equal, she will do her buying at the store that has the best lighting Poor lighting gives the store a dingy, unattractive appearance It may be as clean as the one that is better lighted, but it doesn't look the part, and the presumption is strongly in favor of the store that is illumined with light that fails to reveal any signs of dirt.

This chain organization had experts make a study of the lighting needs of its stores. After the new lights were installed throughout the chain and used for a time, the management was convinced of their worth. Sales were increased and the total lighting bills were lowered by this properly planned lighting system

Proper illumination benefits the sales force Goods can be seen better, and hence sales work is made easier. Poor store lighting may be responsible for a marked degree of inefficiency on the part of the employees, for headaches and nervous disorders may be caused by inadequate illumination The store's customers are affected to some extent by this same factor Therefore, adequate illumination makes shopping more pleasant and selling more efficient; thus, the sales per customer are increased. Because the merchandise can be seen more easily, the length of time in making a sale is reduced, and the salespeople are thus enabled to wait on a greater number of people during a day.

Proper lighting also reduces the amount of returned goods. If the goods cannot be seen clearly at the time of purchase, they

may prove to bo not what the customer wanted and what she thought she was purchasing. Good lighting also permits effective use of otherwise waste floor space and helps make up for disadvantageous locations within the store.

Planning Store Illumination.—A retailer usually will admit that good lighting has sales value but hesitates to install a different lighting system because of the expense. However, he can calculate in dollars and cents whether a better lighting system would be worth while. An illumination engineer can give him an estimate of the cost of installing a lighting system suited to his store The experience of other stores will show him what effect he should expect on sales. In this way, he can see how a better lighting system will bring him more profit through increased sales

The merchant does not need to guess as to what is satisfactory lighting for his store. That is a matter which can be determined scientifically. An example of the development in this field of lighting is a meter device through the use of which it is possible to check wasteful lighting conditions and to determine the intensity and extent of illumination required for any particular condition. This device has a range of ½ to 500 candle power and measures the loss of light due to dark interior walls, decorations, and furnishings. It also shows the relative daylight illumination of offices and rooms located on various floors and courts. Daylight is the standard by which lighting methods are measured. Yet it never has been satisfactorily imitated. One reason is that there is an important difference in the spectrum content of artificial light and of daylight. The other reason is the great difficulty of getting perfect diffusion by artificial light.

Most large stores and many small ones have to use some artificial illumination even during the day. The amount needed will vary with the location, store arrangement, time of year, and so forth. In many of our cities there is a large loss of daylight from the effects of smoke. This loss is greater in the winter than in the summer. It results in a greater need for artificial illumination in store buildings. In recent years a few stores have been built without windows above the first story and thus require complete artificial illumination.[1]

[1] Among the arguments presented against such windowless construction are the following: (1) It increases the operating costs, for it requires com-

The provision of a satisfactory lighting system for any store is more than just the problem of lighting a building. There should be adequate illumination, and this will vary for different articles. Information can be secured to show the number of foot-candles[1] necessary for different types of merchandise

In general, the interior-lighting needs of retail stores may be classified as follows: (1) General illumination, which includes a more or less uniform system of lighting throughout the store, of sufficient intensity and proper diffusion In the small store, general illumination is often the only type of lighting that is necessary. (2) Localized lighting needed to supplement the general-lighting system. Specialized lighting may be used, among other purposes, to emphasize certain features of particular merchandise or to provide light of higher intensity in certain special sections, such as workrooms (3) Display or showcase lighting, which is the additional lighting required for emphasizing merchandise displays in showcases.

The method of lighting and the lighting fixtures should be adapted to the type of merchandise, the type of store, and the architecture and design of the interior of the store. For example, an exclusive specialty shop seeks "atmosphere" which can be enhanced by distinctive and ornamental fixtures, in contrast to the utilitarian fixtures of a large department store Direct-lighting fixtures may enhance the effect in a jewelry department and yet be decidedly out of place in the furniture department where a modified light is sought, similar to that found in the home where the furniture is to be used. If a highly diffused light is desired, an indirect-lighting type of fixture is suitable. The diffused illumination thus produced is characterized by softness and freedom from shadow However, this type of lighting often proves rather costly; for, the more light is diffused, the more it is wasted. As a result, more stores use the semi-indirect method

---

plete air conditioning and complete artificial lighting. (2) It tends to give the customer the feeling of being shut in. (3) There are many articles that the customer may wish to examine in a natural light On the other hand, it is argued that the windowless construction (1) affords better air-conditioning efficiency and (2) gives greater ease and flexibility of display because of the relatively large amount of wall space available

[1] A foot-candle is the common measure of illumination of lighting fixtures A foot-candle is the illumination on a surface at a distance of 1 foot from a standard candle.

of lighting their interiors. In this type the light coming downward is partly diffused by the glass bowl under the bulb. The light that goes upward is reflected by the ceilings. In general, semi-indirect lighting has the following advantages over direct lighting. (1) The quality of illumination is improved because of better diffusion (2) There is low surface brightness, even with high wattage lamps. (3) The artistic bowl-type open fixtures ordinarily fit more harmoniously into the store decorative treatment than do direct-lighting fixtures.

The lights should be so placed that there is no glare and that as few shadows as possible fall on the merchandise. The lighting of a floor should be as nearly uniform as possible considering the different types of goods. Lighting outlets placed symmetrically and at a uniform height add to the appearance of the store The fixtures should be cleaned at frequent intervals to prevent the accumulating dust from lowering the intensity of the illumination, and the bulbs should be changed at regular intervals.[1]

The walls and ceilings have an important bearing on the reflection and diffusion of light[2] If they are of a pure white or a cream color, they do not absorb the light. They must be kept clean, because dirty or dingy walls and ceilings greatly reduce the effectiveness of the lighting system of the store.

Fluorescent Lighting —An important trend in store illumination is the introduction of fluorescent lighting in both small and large stores This type of lighting which is supplied through tubular nonfilament lamps is being used for general, localized, and display illumination. It is now widely used in stores both on the selling floor and in the nonselling areas.[3]

The tubular bulb which is the light source in fluorescent lighting differs fundamentally from the common tungsten-filament bulb. The inside of the tubular bulb is coated with an application of fluorescent powder. The absorption by this fluorescent coating of electric impulses generated by a small quantity of

[1] For example, in one men's wear store the fixtures, which are of an indirect-lighting type, are cleaned every 30 days and the bulbs are changed every four months.

[2] This is especially true in the use of indirect or semi-indirect lighting fixtures

[3] SHANKS, E. W, "More Light for Less Expense," *American Business*, November, 1940, p 23.

argon gas causes a radiation of light.[1] The entire tube becomes a light source and thus provides a much diffused light. By changing the mixtures of fluorescent powders with which the inside of the bulb is coated, various colored lights are obtained.

Among the advantages claimed for fluorescent lighting are: (1) It gives a much closer approach to natural daylight than can be achieved under the normal method of store lighting, which uses the tungsten-filament bulb Thus, many colors previously unseen under artificial light are brought out and the appearance of the merchandise is enhanced[1] (2) It brings economies in lighting costs because there is more light output per watt. The daylight bulb is said to give about three times as much light as a regular tungsten-filament bulb of the same wattage.[1] (3) It provides more efficient colored-light sources and offers decorative opportunities not previously possible[2] (4) The tubular bulbs give off much less heat than the tungsten bulbs This may result in a considerable reduction in air-conditioning expense This relative coolness of fluorescent lighting may be important in apparel stores or departments in that it makes possible cool fitting rooms with a near-daylight quality. (5) No covering fixtures are required, for the light is much diffused.

Equipment for Handling Cash Sales Transactions.[3]—The different methods or systems of handling cash sales transactions may be divided into two general types: (1) the decentralized and (2) the centralized type. The two methods under the first group are the cash-register system and the floor-cashier system. Under the cash-register system, change is made by the salesperson through the use of a cash register in the department or store The chief advantage of this type of cash handling is the quickness with which the sales transactions can be completed. In the floor-cashier system, divisional cashiers are placed throughout the store, each serving one or more departments The salespeople turn over their sales checks to them and receive the necessary change.

[1] "Cleveland Adopting Fluorescent Lighting," *Retailing* (executive ed.), Feb. 13, 1939, p 6

[2] As previously pointed out, various colored lights are obtained by changing the mixtures of fluorescent powders with which the inside of the tubular bulbs is painted

[3] The handling of credit sales is discussed in Chap. XX

Under the centralized type of cash handling, at the time of sale the money received and the sales check are sent to the central cashiering station where the change is made. The chief advantage of this type of system is the close control over cash that it makes possible. On the other hand, it requires that a sales check be made out for each sale, and it involves a period of waiting by the customer until her change has been returned. There are two forms of equipment used in centralized systems to send the cash and sales check to the central cash desk and to provide the return of the change and the authorized sales check to the selling floor. In the first of these the sales check and cash are placed in a carrier that runs on a wire cable from the selling department to the central cash desk. Some stores use a carrier method which conveys both the merchandise and cash to a central wrapping and cash desk; however, in the ordinary use of this method the salesclerk wraps up the purchase while change is being made and returned from the central office. In the tube system the carriers containing the sales check and cash are sent through pneumatic tubes instead of by cables. The tube system is the more widely used type of centralized system in the larger stores. The cable carrier system is used in many stores, however, particularly in medium-sized stores.[1]

In the large store a combination of the tube and cash-register systems usually is the best solution to the problem of handling sales transactions. Among the factors that favor the use of cash registers in a department or section of the store are a low average-sale amount, a relatively large number of cash-take sales per salesperson per day, emphasis on speed in handling transactions, and wrapping of the goods by the salesperson. The tube system may be found preferable for departments where a great many of the sales are charged,[2] where speed in completing the sale is less important, where the money amounts are larger, and where wrapping takes longer.

Mechanical Equipment in Selling Departments.—There are a great many specialized mechanical devices suitable for use in

[1] A carrier system is sometimes found in relatively small stores with only one selling floor or perhaps with one main selling floor and a balcony on which some selling is done and on which the central cashier is located.

[2] The tube system can be used for authorizing charge sales as well as for handling cash transactions; whereas, if cash registers are used for handling

certain selling operations. Some of the most common examples are measuring, counting, and weighing equipment The desirability of the installation of mechanical selling aids must be determined in the light of the particular needs and conditions in the department and store. For example, where yard goods are sold, it may be profitable to use mechanical measuring equipment in order to prevent overmeasures. For example, one large store, by installing measuring machines in its piece-goods departments, saved several thousand dollars in stock shortage in a single half year

Equipment in Nonselling Departments.—Many merchants neglect the obvious opportunities for improvement in nonselling activities through the use of certain specialized machines and equipment. Often mechanical equipment will do much of the necessary work more speedily and more economically than it can be done by hand Also, the use of mechanical devices may provide additional services or a better grade of service to the customers of the store.

Some of the various types of mechanical devices found in the store offices are: (1) Devices for store communications, such as the telephone system with a private branch exchange if the store is large, buzzer systems, and dictographs.[1] Some stores have installed internal broadcasting systems, which are used for the double purpose of instructing the sales force and making announcements to the public within the store. (2) Labor-saving devices for use in store correspondence and for reproduction of written or printed material, such as addressing machines, letter-folding machines, automatic stamping machines, letter openers, multigraphs, duplicators, and automatic typewriters. (3) Accounting and auditing devices, including adding and calculating machines, and bookkeeping machines. (4) Devices for the filing and protection of records, cash, etc., including files, safes, and the like. (5) Miscellaneous equipment, such as time clocks and time stamps.

---

all cash transactions, some other method must be provided for use in connection with charge-sale authorization (see Chap XX for discussion of authorization of charge transactions)

[1] The dictograph is a small instrument that enables the major executives of an organization to gain direct connection with each other, either privately or in groups, without reverting calls to the telephone operator

Among the mechanical aids found in the receiving, marking, and delivery rooms are automatic perforating machines, floor trucks, scales, price-ticket marking machines, belt conveyer systems, equipment for compressing and baling wastepaper, numbering machines, and time stamps

Many other examples of specialized equipment could be given, including equipment for the stock room and machinery for manufacturing or alteration departments The recent developments in the field of air-conditioning equipment are worthy of special consideration at this point.

Air Conditioning.—Air-conditioning equipment has been installed in many stores, small as well as large, and is constantly being installed by others. Air conditioning may be defined as the process of controlling within definite limits the four fundamental characteristics of air: (1) temperature; (2) humidity, or moisture content; (3) cleanliness, or purity; (4) movement, or circulation. The air-conditioning equipment may provide the above control in summer, in winter, or in all seasons In the summer in order to provide comfortable conditions within the store, the air-conditioning system must cool the air, lower the moisture content, and clean and circulate the air In the winter the air must be warmed, moisture must be added, and the air cleaned and circulated in order to make the store a comfortable place in which to shop [1]

There are several different types of air-conditioning equipment, ranging in cost from a few thousand dollars to $100,000 or more, depending upon the type and extent of coverage provided by the equipment.[2] The many forms of air-conditioning equipment produced by the different manufacturers can be classified generally into two systems—the central and the unit-type systems. In the first type the air is conditioned at a central point and then distributed through metal ducts to the air-conditioned areas In the unit system, air-conditioning units are located at suitable points throughout the air-conditioned area In some instances,

[1] In both seasons a sufficient supply of outside air should be introduced for ventilation purposes

[2] Some so-called "air-conditioning" equipment does not provide control over all four of the basic characteristics of air and should be called by a name that describes the function performed. For example, some equipment sold as air-conditioning equipment provides only temperature control.

self-contained units, that is, units with refrigeration plants contained within them, are used. Another variation of the unit system is that in which the units contain simply a cooling surface and fans and the conditioning fluid is supplied from a central plant through relatively small piping. A store should choose the system that will be most adaptable to the store's physical requirements For example, a large specialty store in Texas chose the unit-type system rather than the central type, because the units and the small piping to and from them could be made to harmonize with the exquisitely finished interior of the store, whereas the installation of any duct work would have marred the appearance of the display rooms.

Although the advantages to be obtained from the installation of air-conditioning must be judged from the viewpoint of the individual store using it, the following are the general advantages: (1) It tends to give a store competitive advantages if it is the only store or one of the few stores in its community with air conditioning. It indicates a progressive management and up-to-date service that may attract customers The greater comfort in shopping may draw trade from unconditioned stores The importance of this competitive advantage has lessened as more and more stores have installed air conditioning. (2) Customers stay in the store longer and will often increase the amount of their purchases. Conditioned air is especially likely to result in greatly increased sales in food departments, soda fountains, and restaurants [1] Air-conditioned apparel departments and fitting rooms make the customer more willing to try on apparel in warm weather and thus tend to increase sales.[2] (3) The efficiency of employees is increased. Employees work more willingly and efficiently because the working conditions are pleasant. With their minds on their work and oblivious to severe weather conditions, the salespeople serve customers more efficiently; there is less likelihood of irritating misunderstandings or impolite service.

[1] One store in Wisconsin reported that the installation of an air-conditioning system in the basement restaurant increased its business and greatly increased the volume of the surrounding departments because people passed them on the way to the restaurant "Stores Increase Volume and Profits with Air Conditioning," *Retail Ledger*, Feb 15, 1939, p. 14.

[2] This may result in a reduction in alterations, for the customers get better fitting merchandise by trying on more garments

Conditioned air also tends to reduce sickness among employees, which results in fewer absences and increased efficiency.[1] (4) The conditioned air offers protection to fabrics and many kinds of perishable merchandise, guarding them against the deteriorating effects of moisture and dust. By minimizing the soilage of merchandise, markdowns are reduced. (5) The cleaning and janitor costs are lower, for there is less dust accumulation. (6) Air conditioning tends to lengthen selling seasons. For example, it increases the sale of fall merchandise in the late summer months.

Indications point to a rapidly increasing installation of air-conditioning equipment in retail stores in the next few years. One retail executive states that in the very near future such equipment will be considered just as essential as the furnace is in the modern store of today. This means a revolutionary change in shopping conditions as they affect the public and gives the merchant a new means of attracting trade through offering his patrons comfort in all seasons.

Summary.—Regardless of location and irrespective of size or type of business, the merchant who sees to it that his store layout is efficient and who uses modern equipment has a tremendous advantage in the present-day keen competitive fight for profitable sales volume. Although the merchandise itself may be the kernel, the building and equipment constitute the shell, and it is the shell that makes an impression before the kernel is examined.

[1] The introduction of air conditioning in a store in Dallas, Texas, resulted in a 25 per cent reduction in sickness among the employees. "Stores Increase Volume and Profit with Air Conditioning," *op. cit.*

CHAPTER VI

STORE ORGANIZATION

The Need for Organization.—The purpose of store organization is to bring the various parts of the store into systematic relation so that the coordinated whole functions efficiently and harmoniously. Each part performs its service not as an end in itself but as a means of helping the whole machine or organization reach the common goal Thus, in any store the creation of the proper organization is an important step toward successful operation

The organization of a store may be said to consist of the store personnel and their duties and the relationship between those duties Therefore, in a one-man store, where all the duties in the store are performed by one person, there is no need for organization except in the sense that the individual should organize or divide his time among the various duties As soon as he hires someone, the work of the store must be divided between them; thus the need for organization appears As the store grows in size and its activities become more varied, it becomes increasingly necessary for the head of the store to delegate his authority and duties by means of the proper organization It has been said that organization helps the head of a business to spread himself over the entire concern, no matter how large it may be [1]

Although the need for organization is immediately apparent in the large store, its importance in the small store is likely to be overlooked or undervalued. Both the large and the small stores are buying, selling, advertising merchandise, hiring and training employees, and performing the other common functions of a store. It is just as necessary in the small store as in the large one that each person know his job and that he do it. Much time is lost in many small stores because of the lack of proper allocation of duties among the employees The real difference between the large and the small store is not in the need for organization, but

[1] KNAUTH, OSWALD, "On Delegation of Authority," *Journal of Retailing*, December, 1940, p. 97.

rather in the form and type of organization necessary. For example, in a small store owned and operated by a single individual, all the retailing functions are carried out by the owner himself; in a large department store, all store functions and activities are delegated to others, and the chief executive devotes his time to general control and planning In any store, regardless of size, a smooth-working organization leaves the owner more time to plan and guide the store toward greater and more profitable business "Order is the first law of the universe" applies also to retail establishments, both large and small.

Advantages of Organization.—One of the two chief advantages of organization is that it coordinates the various parts of the store so that each of its functional divisions and each of its departments works in harmony with all the others All the jobs and all the people in a store must be fitted together into one unit so that, as each person performs his part, it will link in with the others to carry on the day's work of the store. This is like the human body, in which each part is performing its duty toward giving life and health to the whole mechanism

The other chief advantage of organization is that it locates responsibilities It gives each employee definite work and thus prevents evasion of responsibility for the performance of specific duties. In the absence of organization, an employee manifests a tendency to shrink from unpleasant or hard tasks, asserting that "that is not part of my job." Some essential functions may not be taken care of simply because no one knows who is to perform them.

Among other advantages might be mentioned the fact that organization helps maintain better discipline Because it shows clearly the relationship among different individuals, the extent of the authority and responsibility of each will be definite and clear. Each employee knows to whom he may give orders and from whom to expect them. Organization also saves the time and energy of executives, because it can place the detail work elsewhere, and eliminates much bickering as to who shall carry out various tasks. At the same time, it induces specialization on the part of the employees and so should make each one more capable in his duties.

Legal Forms of Organization.—When a business is owned entirely by one person, it is termed a *sole proprietorship.* This

type is common among small stores and is the simplest form of organization. The chief advantages of this type are: (1) ease of formation; (2) ease and directness of control; (3) freedom from government control[1]; (4) strong personal incentive. The chief disadvantages of the sole proprietorship are: (1) unlimited liability of the proprietor; (2) lack of permanence; (3) difficulty of providing large amounts of capital

Another common type of retail organization in the case of small stores is the *partnership* form. In this form, two or more persons unite their property, labor, or skill and share in the control and the resulting profit or loss of the store [2] This type of organization often makes possible a larger amount of capital than is available under the sole-proprietorship form, but it is subject to the other disadvantages of sole proprietorship.

Most large stores are corporations The ownership is vested in the stockholders, who elect from their members a board of directors which has the administrative control of the corporation. This board elects the usual officers of a corporation, who, as a rule, also occupy executive positions in the store Sometimes, there is an executive board or store council that controls the store activities. Ordinarily, this is composed of some officers of the corporation and some functional executives of the store.

Principles of Sound Organization.—The building of a sound organization for a retail store involves the following:[3]

1. An analysis of the work to be done. Since store organization is largely a matter of relationship among the functions of the business, a clear idea of the functions performed by the establishment is essential as a basis for planning a proper organization. Thus a study of the work to be done, in terms of both the major functions and the activities required to carry out those functions, is the logical starting point in the building of a store organization. Such a "job analysis" indicates not only the specific duties of a job and how they may best be done but also the necessary qualifications in an individual to be assigned to that job.

[1] As compared with the corporate form.

[2] There are exceptions to this statement in the case of certain specialized types of partnerships

[3] The following discussion of the principles of organization is based upon ideas presented in *Better Retailing*, 10th ed , Chap 1, a booklet issued by the Merchants Service Bureau of The National Cash Register Company.

2. The grouping of the different activities to be performed. In any store the day-by-day operation involves a large number of detailed activities that must be properly grouped if the various parts of the organization are to work together as a harmonious whole. In the large store the various detailed duties or activities are grouped under the major function of which they are a part. For example, under the function of providing merchandise for sale are grouped the activities involved in the planning of purchases, the planning and control of stocks, and the actual process of buying, which would include the selection of resources, the choice of the specific items, the arranging of terms and discounts, and other activities In the small store an organization built on strict functional lines is ordinarily not possible; thus, the detailed activities are more apt to be grouped according to the specific individual responsible for them.

3. The definite assignment of persons to specific activities. In the large organization, this may mean in some cases the assignment of an individual to one detailed duty that makes up only a small part of a major function of the business In the small store with only two or three employees, on the other hand, each employee may be responsible for a broad group of activities. In any case, however, sound organization requires that each individual know precisely the nature and extent of the duties for which he is responsible.

4. The provision of adequate training of each individual for the performance of his particular work. This is essential if the organization is to provide as efficient use as possible of the energies of the employees.

5. Proper supervision to insure that the duties assigned to the specific individuals are performed properly and at the right time This supervision should be carried on in a manner that will aid in the building and maintenance of employee loyalty toward the store Because the success of a retail store depends largely upon satisfactory contacts of prospective customers with the rank and file of the store employees, it is highly desirable that there be store spirit and a sincere interest in the business on the part of every employee of the store.

Retailing Functions as the Basis of Organization.—Stores differ widely both in the general structure and in the details of their organization, for the individual needs of the stores vary. How-

ever, the functions around which the store organization is built are essentially the same in all stores, regardless of size or type. These functions are involved in meeting the basic needs of every store, which are as follows:[1]

1. Merchandise for sale. This requires the carrying on of the buying function, made up of many detailed activities, and related functions or duties, such as the receiving and marking of incoming merchandise.

2. Customers to buy this merchandise. To obtain customers who will provide a satisfactory sales volume, a store must carry on the publicity function in the form of advertising, window and store display, and other publicity activities.

3. A suitable place in which to sell the merchandise The provision of a satisfactory place in which to sell merchandise involves the function of physical maintenance and care of the store building and equipment. This includes the making of needed alterations and repairs, the furnishing of cleaning and other janitor service, the provision of heat, light, and ventilation, the purchasing of operating supplies and equipment, and similar activities

4. Efficient and courteous employees. The provision of an efficient and courteous group of employees, both selling and non-selling, requires the performance of personnel functions. These include the employment of suitable people, the carrying on of adequate training and supervision of these employees, and all other activities required to improve the well-being and effectiveness of the store employees.

5. Financial resources and store records. The operation of any retail establishment requires the carrying on of certain financial and control functions. For example, cash receipts are obtained from the sale of merchandise and cash is paid out for merchandise, for operating supplies, and to cover operating expenses These receipts and disbursements must be properly controlled and regulated so that the store will have adequate financial means to meet its day-by-day requirements. Accounting records must be maintained as a means of checking upon the success of the store operations and as a basis upon which to plan and control future operations.

[1] The relative importance of these needs may vary with the type of retail establishment.

Organization in Large Stores.—The highly developed form of organization found in large-scale retailing establishments is well illustrated by the organizational structure of large department stores Consequently, an outline and discussion of the most common organizational form in the large department store will now be presented. The discussion is intended primarily to furnish a description of the major functions and the varied activities making up these functions and to indicate the manner in which organizational structure coordinates these various functions and activities. The reader should keep in mind the fact that the organizational structure of other large retail establishments differs in certain respects from that found in the department-store field and that even among department stores there are differences in the details and in the general functional structure of the organizations.[1]

The most common form of organization in the department-store field is that in which the functions and activities of the store are grouped in the following four functional divisions [2]

I. Merchandise division, responsible for
   A. Planning and control of stocks
   B. Buying
   C Planning of sales promotional events
   D Selling
II. Publicity division, responsible for
   A. Advertising
   B. Window and store display
III Store-management division, responsible for
   A. Care of the building and equipment
   B Care of the merchandise
   C. Purchasing of supplies and equipment
   D. Service to customers
   E. Personnel
IV. Finance and control division, responsible for
   A Records
   B Credit
   C Control
      1 Merchandise
      2 Expense

[1] Certain of these differences will be indicated at a later point in this chapter

[2] This is known as the *Mazur plan* of organization, for it was the type recommended by Paul M Mazur in the 1920's as a result of his work with a committee on retail organization appointed by the National Retail Dry

The activities of these four functional divisions of the store are coordinated by the general manager [1] He coordinates, directs, and controls the various divisions so that they will work together as a unit to insure permanence, growth, and net profits for the store.

Merchandise Division.—The merchandise division is headed by the merchandise manager,[2] often the highest paid functional division manager in the store.[3] He supervises the merchandising of the whole store; this includes not only supervision of actual buying and selling, but also the planning of stocks and the planning of special sales events.

In consultation with the buyers, the merchandise manager builds the store's merchandise budget. Because the average buyer is likely to place more emphasis on the market side of buying than on the statistical side, the merchandise manager must pay especial attention to statistical control. He should note general business trends and plan accordingly. Sensing trends is a most important part of the merchandising operation He must unify the efforts of all the buyers

He helps the buyers in searching out new buying markets and at times inspects their merchandise to see that it is in keeping with the standards of the store Many stores require his confirmation on all orders of buyers. He helps the buyers in the planning of sales promotion If any department or sales event does not come up to the planned figures, he checks up on the reasons

Although the merchandise manager is in full charge of his division, he should consult and plan with his buyers rather than dictate to them what is to be done In this way he is more likely to gain the wholehearted cooperation of the buyers and at the

---

Goods Association (N R D G A) in 1924 His report to the N R D G A, which was later published in 1927 under the title *Principles of Organization Applied to Modern Retailing*, has exerted an important influence upon the organizational policies and practices of retail stores

[1] Because most large stores are corporations, over the general manager there is the corporation organization such as is described briefly in the discussion in this chapter of legal forms of organization However, the actual operation of the store ordinarily begins with the general manager

[2] JOHNS, GEORGE W., "The Merchandise Manager," *Retail Executive*, Dec 27, 1939, p. 5

[3] In many stores the merchandise division predominates; this is especially true of the relationship between the merchandise and publicity divisions

same time make them shoulder the responsibility for the success of their own departments. One of the most important services that the merchandise manager performs is to furnish perspective for the various departments.

In the larger stores the merchandise manager frequently has a number of assistants who usually are called *divisional merchandise managers*, *group merchandise managers*, or *merchandise counselors*. Each of these is in charge of the merchandising operations of a related group of selling departments and supervises the work of the buyers for those departments. The divisional merchandise managers provide coordinating links between the merchandise manager with his emphasis on statistical control of the store's entire merchandising operations and the buyers with their emphasis on the buying and selling activities in their individual departments. The divisional merchandise men are close enough to the individual departments to understand the buyers' activities, but at the same time far enough removed from the departments to appreciate the necessity of guiding the buying activity with the centralized statistical control. If they fail to coordinate and unify the efforts of the related departments under them, they fail to perform their function in the organization of the store

Each department or group[1] of related departments is managed by a buyer, who is responsible for the success or failure of the merchandising operations of the department or departments. The chief functions of the buyer are: (1) buying, which includes determination of wants of customers, location of merchandise sources, actual selection of the goods, and pricing; (2) selling, which includes sales promotion, supervision of the sales force (in cooperation with the store management division); (3) merchandise control, which includes merchandise budgeting and stock control.

The buyer in consultation with the merchandise manager or divisional merchandise manager works out the merchandising plan or campaign for his department. In order to plan his merchandising operations effectively, he must forecast with as much accuracy as possible the future demands of his customers. After determining the most desirable sources of supply, he makes

[1] Especially in smaller stores a buyer often manages more than one department

the actual selection of the merchandise by going to the market frequently or by buying from the visiting salesmen.[1] It is he who prices the goods when they are received by the store.

In the typical department-store organization the buying and selling functions of a department are combined under the buyer, who is thus responsible for the selling as well as the buying of the merchandise.[2] Thus the salespeople are responsible to the buyer. In addition to supervision of the salespeople in his department, the buyer often directs much of their training, particularly that dealing with new merchandise and fashion trends.[3] Also, as a part of his selling responsibility the buyer plans the sales promotional events and usually makes suggestions to the publicity division, especially with regard to the features of the merchandise that should be stressed in the advertising.

Finally, as a part of his work in managing the department, the buyer is held responsible for obtaining a satisfactory gross margin and net profit. This involves the duty of providing for adequate stock control as well as for the proper execution of the previously mentioned duties.

Under the buyer there may be an assistant buyer and a head of stock. Often the head of stock is a salesperson who is responsible for the care of the stock. The exact nature and importance of the duties of the assistant buyers are different in various stores and vary even among departments of the same store. The activities of the assistant buyer are affected by the organization of the store and the personality and nature of the buyer, as well as by the willingness and ability of the assistant buyer to assume responsibility.[4]

[1] Other buying methods might be used. See Chap. IX.

[2] In some department stores the buying and selling activities of a department are separated. The buyer has charge only of the buying for the department, and the responsibility for selling is given to another person, commonly known as *section manager*, who is responsible to the store operating division.

[3] In his supervision and training of salespeople, the buyer ordinarily works in cooperation with the store-management division, which in the typical four-functional type of organization is responsible for personnel activities.

[4] For a detailed description of the duties of assistant buyers, as determined in one department-store organization, see Norris A. Brisco and John W. Wingate, *Buying for Retail Stores*, pp. 81–84, Prentice-Hall, Inc., 1937.

Publicity Division.—The function of this division is to present the store and the merchandise to the consumer in a way that will attract prospective customers to the store, overcome sales resistance, and build good will [1] The executive responsible for the publicity work is called the *publicity manager* or the *advertising manager* In some stores the division is headed by a publicity manager who coordinates the work of an advertising manager and a display manager

The activities of the publicity manager fall into three groups: (1) newspaper advertising; (2) other forms of advertising; (3) window and store display.[2] Other forms of advertising include every type of advertising outside of that appearing in newspapers Included in this group are circulars, booklets, house organs, direct-mail material, billboard and other outdoor forms, street-car advertising, and radio advertising.

The work of the advertising or publicity manager is to plan the general publicity of the store in cooperation with the general manager, to estimate in advance all publicity expense, to check these estimates with actual expenses as the season advances, and to divide the advertising budget among the different forms of advertising and among the different departments. He will evaluate the worth of different advertising mediums and approve the finished advertisements. He must see that all advertising and display conform to the general policy of the store.

In the large store, there will be one or more assistant managers and specialists in the technical production of advertising and display material, such as, for example, several copy writers, each specializing in a group of departments, and sign writers.

Store-management Division.—This division is responsible for a wide range of activities most of which are closely related to the provision of proper service to the customer. Proper service requires among other things the maintenance of a clean and comfortable store; intelligent selling, which depends upon the wise

[1] Although in the four-functional plan of department store organization the publicity work is handled in a separate division on an equality with the other three main divisions, there are some stores in which the publicity work is carried on in a subdivision of the merchandising division.

[2] The window- and store-display duties are sometimes placed under the merchandise division and at times in the store-management division but seem more logically to belong to the publicity division.

selection, effective training, and careful supervision of the salespeople; and the proper handling of any special services offered to customers, such as delivery of the merchandise. So varied is the work of this division that it seems that everything is assigned to it that is left over from the other divisions The work of this division never ends in a large store, for someone is on the job during all the 24 hours of the day.

The executive in charge of the store-management, or service, division is called the *store manager*[1] or *store superintendent*. Other titles that are used in some stores are general superintendent, store director, or service manager. The duties of the store manager fall into five general groups.

1. *Care of the Building and Equipment*—Because he is responsible for keeping the store building and equipment in good repair, he supervises repairs and alterations, the construction and changing of layouts, all painting and carpentry work, and the maintenance of mechanical equipment. He has charge of the heating, lighting, and ventilation of the store. Because the building must be kept clean, he directs the porter and cleaning service.

2. *Care of the Merchandise.*—This lasts from the time the merchandise is received into the building until it leaves on its way to the consumer. The goods must be received, counted, and checked with the invoice, and the price tags marked and attached. Then the merchandise must be cared for, whether in a warehouse, in reserve stock, or on the selling floor, and at all times must be protected from theft. The store manager directs and supervises all these activities.

Although the receiving and marking room or department is usually under the store manager, some retail executives have suggested that it might be placed under the controller or under the merchandise manager. It probably is not best to have the receiving and marking work carried on as a part of the merchandise division, because with that arrangement the merchandising division is checking or auditing its own activities. However, on the other side of the argument, because of the close relationship of the work of receiving and marking to the activities of the merchandise division, new merchandise might be brought

[1] This use of the term "store manager" should not be confused with its use in a small store or chain unit to refer to the manager of all functions of

to the selling floor with less delay if all receiving and marking were directed by the merchandise manager

3. *Purchasing of Supplies and Equipment* —The store manager is responsible for the determination of the proper sources for the purchase of supplies and equipment and the actual placing of orders and reorders. He supervises the receiving, inspection, and checking of the equipment and supplies. He also provides organization for operating the supply room, for handling requisitions from departmental heads, for issuing supplies on the basis of the requisitions within certain budgetary or expense-control limits, and for checking up on the distribution and use of supplies He furthers the standardization of supplies and equipment.

4. *Service to Customers.*[1]—Efficient, courteous sales service must be given to the customer A delivery service must be provided that will deliver satisfactorily the merchandise that must be sent to the homes of customers. An adjustment bureau is required as a clearinghouse for handling complaints over returned goods and various mistakes in the store's dealings with these customers. Personal shopping service, information booths, rest rooms, tearooms and grills, elevators, telephone and parking facilities are some of the other consumer services under the control of the store manager.

5. *Personnel.*—In some department stores the personnel work may be performed by a separate division reporting directly to the general manager and on a par with the usual four functional divisions. Ordinarily, however, the personnel activities are under the store manager. The personnel department or section of the store-management division is ordinarily headed by a personnel director who directs its three general types of work: (*a*) employment, (*b*) training, and (*c*) employee-service activities.

The employment manager has charge of the examination of applicants for positions, their hiring, and discharging. He keeps the record of their performance and recommends promotions He also builds up reserves of labor for the holiday season and for sales. The educational director trains the new employee for store service. This includes the initial job training, promotional training, and classes for the correction of errors. He may make

[1] The number and types of services naturally vary greatly among various types of stores. For example, contrast the large department store and its many services, with the self-service supermarket.

job analyses as well The employee-service director is in charge of such activities as employees' restaurants, reading rooms, clubs, hospitals, and mutual-benefit insurance plans.

Finance and Control Division.—This division is headed by the controller.[1] In some stores, his duties have been centered largely in the routine of bookkeeping, but the progressive store of today gives him a far more important field. More and more, his duties center in the financial planning and budgeting for the store. This requires a man of far greater ability than was necessary when his function was limited to the maintenance of the necessary records and the supplying of statistics The duties of the controller may be grouped under three heads

1. *Records and Reports*—He is in charge of most of the store records and is responsible for the preparation of various types of reports This work includes: (*a*) Accounting and auditing. There are the numerous ledger accounts to be kept, various audits to be made, and the financial statements to be prepared (*b*) Responsibility for the receipt and disbursement of money for merchandise, service, and supplies. (*c*) Office records which cover filing, typing, and insurance and legal papers (*d*) Supervision of the physical inventory (*e*) Preparation of statistical information (*f*) Preparation and filing of tax returns.

2. *Credit*—Through the credit manager, the controller ordinarily supervises all credit work, including the whole process from judging applicants for credit to collecting overdue accounts. The modern emphasis on credit and, particularly, installment selling has increased the volume of this work. It is the controller's responsibility to safeguard the store's capital and earnings by exercising control of credit sales in accordance with sound policies.

3 *Control*—This has become the most important part of the controller's work, for stores have come to place greater emphasis on merchandise and financial planning. This control is in two different fields. The first involves merchandise control. The controller, through his past records and his information on present conditions, helps the merchandising division to formulate a merchandising plan. He also checks the merchandise division

[1] In many stores the position of controller is combined with that of

on the amount of stock on hand, sales, purchases, open-to-buy, markup, and markdowns. If the actual results show undue deviation from planned performances, he may call this fact to the attention of the general manager or the executive committee.

The second type of control involves expense control. The whole work of the store is directed toward showing a satisfactory and continuous net profit The controller must see that all divisions and departments do their parts toward accomplishing that goal. This duty includes the preparation of expense budgets, authorization of expense requisitions, checking of actual expenses against the budgetary figures, allocation of expenses by departments, and any other activities required for adequate expense control.

Variations and Changes in Department-store Organizations.—Every store differs somewhat in its method or form of organization. Thus, even among those stores which are organized essentially on the four-functional plan just described, there are many variations in the details of the organizational structure. Also there are other types of department-store organization that differ with respect to the number of major divisions and the range of responsibility of each division. For example, in some stores there are only three main functional divisions, with publicity handled as a part of the work of the merchandising division. In a few stores, particularly in smaller stores, there may be only two major functional divisions, one combining merchandising and publicity and the other, store management and control.

Since about 1934, department-store executives have evidenced considerable interest in general problems of organization, largely as a result of conditions during those depression years which indicated the need in many stores of a more effective organization. Much of this discussion regarding store organization in recent years has centered in certain aspects of the four-functional plan of organization. This has been criticized on several points, and many of the department-store organizational plans that have been proposed, and adopted in some stores, are attempts to overcome these weaknesses. For example, one of the strongest criticisms that has been levied against the typical four-functional plan is that it fails to lay proper emphasis on and allocate responsibility for the most important function of retailing, that is,

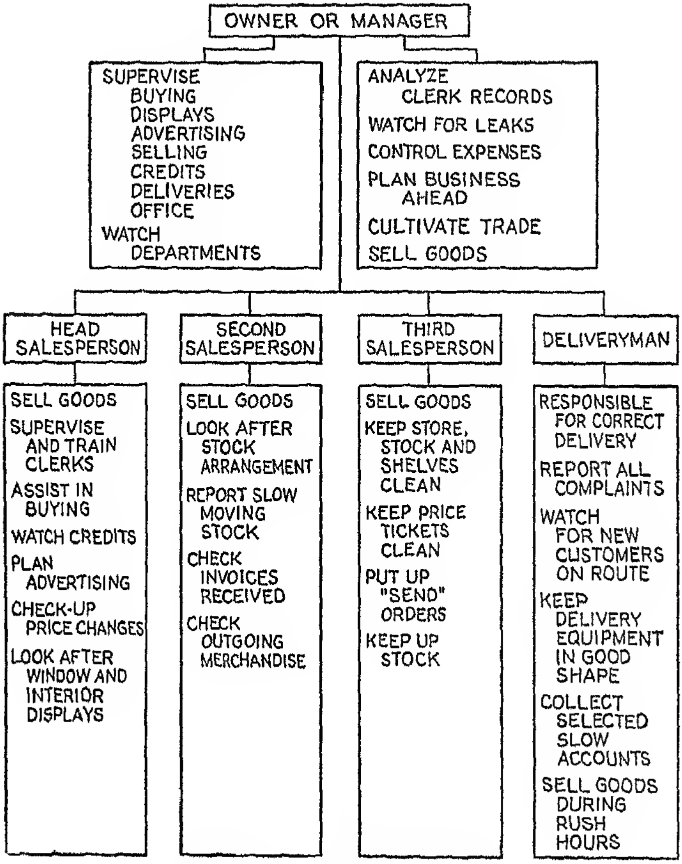
selling. As should be clear from the description that has been given of the four-functional plan, there is no division that corresponds to the usual sales-management division in the organizational structure of a manufacturing concern. Instead, the selling function is divided among at least three of the four divisions, namely, the merchandising division, the publicity division, and the store-management division. One plan that has been proposed to meet this criticism is to have as one of the major functional heads a sales manager, or director of sales promotion, who would be responsible for all selling activities. Thus, he would supervise and correlate the publicity activities, such as advertising and display; the personal selling, including not only the work of the salespeople but also of floor- and department-sales supervisors; and special selling services such as personal shopping[1] and the handling of mail and telephone orders. Many other examples might be given of proposed changes in department-store organization, resulting largely from dissatisfaction on the part of retailing executives with the four-functional plan.[2]

Small-store Organization.—Because store organization consists primarily of the relationships among the functions performed by the business and the personnel that carry out these activities, every store has some form of organization. Basically, the small store performs the same retailing functions as the large-scale retail establishment.[3] In the large store, these functions are carried out through an organizational structure highly functionalized in character and with detailed division of labor. In the small store, on the other hand, functional lines cannot be clearly drawn because each individual ordinarily performs a number of functions or activities. Thus, describing the organization of a small store is largely a matter of outlining the duties of the various persons working there. The line of authority is very simple, for everyone may report directly to the storekeeper himself. The charting or

[1] See p. 355 for explanation of personal shopping.

[2] A good detailed discussion of store organization, with particular reference to the department-store field, is given in O. Preston Robinson and Norris B. Brisco, *Retail Store Organization and Management*, chaps 2–5, Prentice-Hall, Inc, 1938. In Chap 3, there is a discussion of the advantages claimed for the Mazur plan (four-functional plan) and the chief criticisms raised against it.

listing of the duties of each person in a small store helps to fix responsibility; it may also aid in the proper and prompt performance of the various activities. The following chart illustrates



Organization chart of a small store

a possible division of duties among the personnel of a five-man store.[1]

Departmentizing.—In many retail stores the organizational structure is at least to some extent departmentized in character

[1] Adapted from a chart given in *Better Retailing, A Handbook for Merchants,* 10th ed., p. 6, published by the Merchants Service Bureau of The National Cash Register Company, 1937.

By *departmentizing* a store is meant the classifying of the different lines sold by the store into well-defined groups and the operation of these as separate units. This has a threefold purpose. (1) It provides for specialization in buying and selling, for both buyers and salespeople can confine their activities to their own departments. In a small store, this purpose may not be present (2) It makes it possible to control merchandising operations and expenses by lines of merchandise rather than simply for the store as a whole. Thus a basis is provided for determining whether a line of goods is yielding a profit or causing a loss. To the extent to which various stores in the same field classify the lines of merchandise into similar groups, interstore comparisons of merchandising results by departments are made possible. (3) It helps the management in determining the best layout for the store. By classifying the many articles of merchandise into definite groups of related articles, the problem of layout is simplified. Also, the attention of the customers can be centered on certain classes of goods, which means more effective sales promotion.

The number of departments varies according to the kind of merchandise handled, the volume of sales, and the necessity for separate records for merchandising purposes in the store. For example, a small department store might find that 8 departments constituted a practical departmental setup whereas a large department store might have more than 100 departments.

In departmentizing, two things must be kept in mind: (1) merchandise control; (2) sales strategy. With merchandise control in mind, goods having similar sources of supply, type of demand, markup, and rate of turnover may be grouped together Sales strategy groups together goods that require a uniform selling policy, the same location in the store, and the same display treatment. The convenience of the customers also must be considered under sales strategy. In many cases the grouping of merchandise lines primarily to meet one of these two basic factors may not necessarily give a departmental organization best suited from the other viewpoint. For example, in recent years, there has been a tendency in departmentizing to group merchandise for the purpose of sales strategy into such combinations as those represented by Cruise Shops, Campus Shops, Sports Shops, and Cotton

Shops. In many cases, these combinations of lines are made up of merchandise items which involve quite different buying, as well as other merchandising, problems; thus, these departments may be poor arrangements from a merchandise-control standpoint.[1]

A small department store might include the following departments:

Dry goods	Women's ready-to-wear accessories
Small wares	Shoes
Men's and boys' wear	Home furnishings
Women's and misses' ready-to-wear	Miscellaneous

A hardware store might have the following departments:

Builder's hardware	Toys
Cutlery	Auto accessories
House furnishings	Tools
Electrical goods	Implements

A shoe store might group its merchandise into the following departments:

Men's shoes	Hosiery
Women's shoes	Accessories (including handbags)
Children's shoes	Tennis and rubber goods

Although some departmental organization is desirable in many stores, it should not be carried to extremes. If a store is over-departmentized, purchasing is made more difficult and annoying for the customer. Related items and lines that she desires and expects to be able to purchase together must be bought at several different places in the store.[2] Through this inconvenience to the customer the effectiveness of the sales promotional efforts of the

[1] In general, many stores appear to have given too much attention in departmentizing to considerations of merchandise control and too little to the convenience of the customer, which is an important element in effective sales strategy.

[2] This situation may lead to a policy of considerable duplication of goods in different departments which tends to lessen the advantages of departmentizing the store.

store may be considerably reduced. In addition, overdepartmentalization adds unnecessarily to the complexity of the business operations and gives rise to additional expenses, in the form of more records, more supervision, etc., which do not bring larger sales or other improvements in the merchandising or operating activities

Leased Departments.—A leased department is a department in a store that has been rented or leased for a certain period of time to outside management. The leasing of departments in both large and medium-sized stores is quite common, and many examples of leased departments may also be found in certain types of comparatively small store.

Although the leasing of departments is especially important in the department-store field[1] the practice is found in a variety of types of retail store For example, some grocery stores lease the meat department and in some instances the fruit and vegetable department Drugstores sometimes lease soda fountains In some of the supermarkets in the food field, certain of the food departments (such as bakery goods, dairy products, and meats and fish) are operated by lessees, and in some establishments many nonfood lines (such as drugs and cosmetics, crockery, paints, cut flowers and plants) are sold through leased departments

The reason or reasons behind the leasing of departments vary not only among stores but also among the departments leased in one store. A store may lease a department because the operation of the department requires a merchandising knowledge of the line that the store does not have or a close and continual contact with primary markets that the store's organization cannot provide. It is quite common for department stores to lease out "difficult" departments, that is, ones that require highly specialized knowledge, perhaps of a technical character, or departments that involve a large degree of personal service. Optical-goods departments, beauty parlors, and photograph studios are examples of such departments. One of the chief reasons for the frequent leasing of the millinery department is that the successful operation of that line depends to a considerable extent upon a

[1] Examples of departments frequently leased are millinery, beauty parlor, shoes, optical goods, sewing machines, candy, wall paper, floor coverings,

close and continual contact with primary markets that it may be impossible to obtain economically without sales larger than those of one independent department.[1]

Another reason for leasing may be that the department under store management has failed to pay either any or a satisfactory profit, because of a lack not of merchandising knowledge but of a scale of operations that will bring buying and operating economies. The leasing organization with quantity purchases and standardized methods may be able to make the department show a good profit.

A third reason is the desire of the store for a more complete line of goods and services to offer to its customers Expansion may be possible through the leasing of new departments. Even if the store does not derive any considerable profit from the new leased departments, these departments draw trade to the store and thus help the sales in other parts of the store. These departments also reduce the amount of overhead expense borne by the owned departments.

The two main disadvantages to the store of leasing departments are: (1) It may be difficult to get the lessee to conform to the store's general policies with regard to such things as quality of the goods, customer service, handling of returns and complaints, and supervision of selling operations. This may result in loss of good will for the store, because the customer ordinarily does not know that the leased department is not operated by the store. (2) The management of the leased department may not be so fully posted on the needs of the particular community as it should be. This is more likely to be true if the department is leased to a syndicate controlling departments in all sections of the country.

The lessees with whom a retailer may contract to lease a department are of three distinct types. (1) Syndicates, functioning as specialists in one kind of merchandise. The syndicate has central offices and controls its chain of leased departments from the central offices, much as do chain-store organizations. The outstanding example of this type of lessee is probably in leased millinery departments; the syndicate type also operates frequently in such merchandise lines as women's apparel and

accessories, shoes, and jewelry, and in certain departments with a large degree of personal service, such as beauty parlors. (2) Manufacturers who have organized a subsidiary company for the purpose of leasing departments. This type of lessee is frequently found in such lines as shoes, electrical goods, floor coverings, and furniture. (3) An individual, or one-man lessee, who is usually personally known to the store management. The store management feels that this person is able to accomplish results with the department that the store has been unable to do with hired managers over the department. Most leased departments are of the first two types; however, many departments in such merchandise and service lines as restaurants, barbershops, flowers and plants, and bakery goods are leased to one-man lessees.

The leasing contract outlines the conditions under which the leased department operates in the store. The contract is seldom over two or three years in length, and the most common contract-period length is one year. Usually the lessee pays the store a fixed percentage of the sales, with a minimum guarantee (in dollars)[1] The lessee ordinarily pays the expenses directly incurred by the department, such as department pay roll, buying, advertising, insurance, marking, and stock-room costs. The indirect expenses, such as rent, maintenance, administration and office expenses, and credit-account expenses usually are paid by the store. In many cases the store provides the ordinary store equipment, letting the lessee furnish any special equipment that may be necessary.

In addition to terms and rates, the contract should require that the department carry a line of goods that will fit in, with respect to variety and quality, with the rest of the merchandise offered in the store and also that it should use business methods that will help maintain the general reputation and good will of the store. This is particularly important because the customers ordinarily are not aware that the department is not owned and operated by the store itself. The contract may contain many other special provisions. For example, the store may reserve the right to move

[1] As an example, the lessee of a millinery department might contract to pay the store 17 per cent of net sales, with a minimum guarantee of $85,000 a year In some cases a maximum rental (in terms of dollars) is also speci-

the location of the leased department. Usually the store pays the cost of this change in location. The right to duplicate in some of its own departments certain of the items carried in the leased one may also be reserved by the store in the contract.

The exact provisions of the leasing contract depend upon the particular conditions involved in each case. Because there are so many chances for friction in leasing a department, the agreement should be carefully drawn so that it will cover the many specific instances that may arise. Both the store and the lessee should be fully aware of their rights and obligations before signing the contract. It is highly important that the store executives treat the leased department as a part of the store organization and that the lessee cooperate in working out in a harmonious manner the department's proper relationship with the other parts of the store.[1]

Store Organization as a Whole.—There are many differences both in the functional and departmental organization of various stores. Although, as has been pointed out, there are certain types of organizational structure that are widely used in particular lines of retailing, the absence of a standardized form of organization for all retail stores is apparent to every student of retailing. Each store should develop that organization which will best fit it to perform its retailing functions.

The important thing is that the organization be logical and that it be understood and observed. It may be desirable to change the organization from time to time in order to meet changing conditions. If changes are made, it is of the utmost importance that the people affected be advised of the change and how it will affect them.

Store organization fails in an important part of its purpose if it does not help to make all members of the organization "store-minded." Too often the individual departments or divisions of

[1] A large department store on the Pacific coast attributes much of its success in handling leased departments to the appointment of a single executive as a liaison officer between the store and its leased departments. This "merchandise manager of concession departments" coordinates the activities of each leased department with those of the other leased departments and with all other store departments and functional divisions with which the leased departments must deal The lessees appreciate this one-man contact in matters of mutual policy. "Acting as Shock Absorber for Leased Depart-

a store play a lone hand. Frequently, executives are concerned too closely with the affairs of their particular sections of the store and give insufficient attention to the need for coordinating their operations with those of other executives for the good of the store as a whole. The essential idea that must be kept in mind is that each part or member of the organization performs its service not as an end in itself but as a means of helping the whole store organization to reach the common goal.

CHAPTER VII

CUSTOMER DEMAND

Basic Importance of Consumer Demand.—The modern merchant who expects to conduct a successful business must build his merchandising program upon the firm foundation of an adequate knowledge of consumer demand. As has often been said, "The consumer is king."[1] Formerly the manufacturer produced something; the retailer stocked it and said to his trade, "Come buy this which I have brought to you." The starting point was with the producer who manufactured something that he was going to have the consumer buy. One might almost say that the whole manufacturing and selling process operated on the theory that it was the consumer's duty to buy what the manufacturer produced.

The retailer was just the outlet for the manufacturer's product. This was only natural, for the retailer was being urged continually by one highly paid salesman after another to stock this line or that line—the pressure to buy coming from the producing side. The consumer did not audibly express his wishes; hence, the retailers took silence for consent and continued trying to sell the consumer articles produced primarily with respect to the ideas and opinions of the manufacturer or dealer.

Today more and more merchants are making a right-about-face and looking to the consumer for buying orders rather than to the manufacturer The essential question in any store, large or small, is "What does the consuming public want?" When this can be answered, the merchant has made a true beginning, not

[1] William Feather, in "A Business Man's Philosophy," *The Indianapolis Star*, says, "One of the fine things about the present system of economic organization is that the consumer is king. Every producer, even though his operations may spread over the whole world, is a slave to the whim of the users of his product A woman walks down the main street of a city with a $5 bill in her purse. Merchants display a thousand items to tempt her. How shall she divide her $5, where shall she leave it? She is the judge. She may make her choice."

only on his buying program, but on the rest of his merchandising activities as well. The demands of the store's customers must be carefully studied and analyzed so that the merchant or store buyer can know what to choose and how much to choose from the vast array of things that are offered by manufacturers.

The importance of consumer demand as the basis of retail operations is shown in the following statement by a congressional committee

> The retailer performs the final function in distribution of essential commodities and gives fulfillment to all preceding efforts by making merchandise available to consumers at the time, place, and in the form required by them The retailer's true function is that of serving as a purchasing agent for his community, as such, he selects and carries a reserve supply of merchandise to meet the requirements of the individual consumer.

If the retailer is the purchasing agent for his community, he must know the wants of that community. Not only should these wants determine what and how much the retailer should buy, but they should be relayed back to the wholesaler and to the manufacturer and determine their activities. This is the trend of all distribution today—to study the needs of the ultimate consumer and to build back, even to the manufacturing program, with the consumer's needs and desires as a foundation.

Thus, not only should the buyer analyze the wants of his customers, but he should see that the wants and desires shown by the analysis are realized by the producer. The study of consumer demand is the logical starting point in the entire process of manufacturing and selling products. It is a far better investment for merchants to spend time and money in determining public wants than in trying to change these wants to what the merchants think they should be.

The Consumer Movement.—The so-called "consumer movement" is one that influences the desires and buying habits of millions of retail customers, and so it must be studied by the merchant. It has been sponsored by professional consumer groups,[1] by various women's organizations,[2] and by governmental

[1] The best known are Consumers' Research and Consumers' Union.

[2] The National League of Women Voters, the American Association of University Women, and the Federation of Women's Clubs have interested

units[1] (1) to increase merchandise knowledge among women customers, (2) to induce the manufacturers to supply the customer with all necessary information about his products, (3) to get the customer quality merchandise at reasonable prices, and (4) to lower marketing costs where possible

Some retailers have tried to ignore this movement, others have been antagonistic toward it, and others have tried to work with it in all its attempts to help the consumer spend her money wisely. The latter seems the wiser policy in the long run [2] The Consumer-Retailer Council was organized in 1937 to provide an agency where manufacturers, retailers, and consumers could work together for adequate standards, labeling, and terminology for consumer goods and services in order to lessen customer abuses of retail services and to promote better understanding between retailers and consumers in general.

Many stores make use of the services of such organizations as Consumers' Union and Consumers' Research.[3] Because the store's customers may be reading the reports of these organizations, the buyers and the salespeople should also be familiar with them. In this way, they will be able better to interpret to the store's customers the information and ratings given by these organizations.

Reasons for Changed Importance of Customer Demand.—Since society is made up of human beings, it is always changing. As these human beings change, so must the agencies that serve them. The increased importance of customer demand is explained largely by changes in the customer during the growth of retailing in this country. It is undoubtedly true that the customer of today is a far different type of person from the customer of even a quarter of a century or less ago.[4] She is more

[1] The U S Departments of Agriculture, Labor, Commerce, and the Interior have helped in this movement A number of states, likewise, have helped

[2] DAMERON, KENNETH, "Retailing and Consumer Movements," *Journal of Marketing*, April, 1941, p. 385

[3] A discussion of the value of these two organizations is found in Ira I. Berman, "A Comparison of the Ratings of Consumers' Research and Consumers' Union," *Journal of Retailing*, October, 1940, p. 76.

[4] A picture of the consumers' changing tastes in merchandise as seen in the pages of the Sears, Roebuck catalogue is found in David L. Cohn, "The Good Old Days," Simon & Schuster, Inc., 1940.

positive in her likes and dislikes. She knows what she wants and will shop until she finds it; no longer will she accept anything that is offered. The knowledge that today's customer is a different customer from yesterday's presents a challenge to the retailer. He must provide her with the new services and information that she wants This he must do if he is to enjoy her confidence.

But what has caused this change in the customer's[1] attitude? One important reason is the increased buying knowledge of the customer. She knows more about goods than she once did. She has more leisure time, which can be devoted to shopping and to a study of merchandise A part of her education has given her knowledge of the worth of goods and how to buy. Advertising has taught her what to look for in purchasing. Travel, the moving pictures, the radio, and news matter in magazines and newspapers are continually giving her new ideas as to goods and services. Also, retail and other types of organizations have offered training or information to consumers. For example, one large mail-order house conducted a household science "clinic" to teach customers how to buy intelligently. One Midwestern university conducts a laboratory for housewives, which answers queries through newspapers and tells women how to judge merchandise quality.

Another reason for the changed attitude of the customer has been her increasing interest in fashion.[2] This is largely the result of the greater range of knowledge of the present-day customer. Developments in transportation and communication have been important factors in spreading style ideas throughout the country. One manufacturer has said,

> There are no boundaries to transmission of style There is no delay. The radio and the automobile, the movie and the magazine, relay

[1] When we speak of customers, it is largely women customers that we mean Various investigations in various types of retail store have shown that in most stores the greater part of the purchases are made by women Even the hardware store, which would seem to be primarily a man's store, is recognizing the importance of the women's trade and is making special efforts to make itself attractive to women. However, we must remember that men influence the purchases of women to a far greater extent than is generally recognized

[2] Some stores provide a fashion consultant who can help women solve their clothes problems. A description of the activities of such a consultant

fashion news. No time is lost . . . The farmer's wife in Keokuk and the merchant's daughter on Park Avenue read the same pages of the fashion magazine and tune in on the same radio talk There are small towns but only in size. There are no small towns in taste [1]

The average modern customer desires a greater variety of goods and services. This is due both to her greater knowledge of goods and to the higher standard of living as compared with 20 or 25 years ago Also, the modern customer has a greater number of stores from which to make her purchases than did the old-time customer; therefore, she is more likely to take a critical attitude toward the goods and services of any one store. Today's average customer is older than yesterday's, and tomorrow's bids fair to be still older [2] The number of young people in the United States is declining, and the number of older people is increasing. This makes a difference in what the average customer wants—there should be a lessening demand for what the younger people want and an increasing demand for those products desired by older people In general, an older population will have a higher per capita consumption than will a younger. However, this varies with different types of product

The increased knowledge of the present-day customer, her greater interest in fashion, her desire for a variety of goods and services, and the possibility of greater independence in her choice of stores all help to explain why the modern customer is such a fundamental factor in the merchandising program of the retailer.

What the Customer Should Receive.—The object of all business, retailing included, is to satisfy human wants. The incentive is the hope of making a profit in the process of satisfying human wants. Although certain of these wants become habitual, the fact that our desires in general are insatiable makes business move forward continually in its attempt to give satisfaction. The flow of satisfactions that one gets from a purchase has been compared to a stream. For example, a dress or suit gives the wearer pleasure each time she or he wears it. Other things,

---

is found in Charlotte Wilkinson's "Fashion Is Fun," *Journal of Retailing*, February, 1940, p 1.

[1] Frank Herskovitz, New York fur garment maker, quoted in the *American Fur Designer*.

[2] "Changing Population Trends Affect Retailing," *Women's Wear Daily*, Jan. 21, 1941, p. 34.

however, produce but once and then are gone. An ice-cream cone vanishes as it is eaten; a great artist sings a song, and we have no tangible product left. Yet, for some such services or products, customers are willing to pay a high price The worth in those cases seems to be largely psychological or mental rather than physical.

The retailer is trying to buy goods that his customers want—not what he might prefer for his personal use The purchase and sale of the goods and services that will give the greatest possible flow of satisfactions to the customers of the store should be the object of the merchandising program of every retailer. But what is it in a product or service that gives satisfaction? The answer to this question necessitates an analysis of the qualities of the product. Why will some customers pay $10 instead of $7 for a pair of shoes or $100 instead of $75 for a rug? As the merchant studies the factors that give goods this extra worth in the minds of his customers, he can purchase merchandise better suited to his trade He also can more successfully lead his trade to see the values in the goods. As customers receive continued satisfactions in their purchases from a store there develops good will.

Determination of Customer Demand.—The merchant or store buyer[1] might sum up the need for determining customer demand in these words. "I want to carry the merchandise and offer the services in my store that my prospective customers want and expect to find here. Unless I have what they want, they will not buy at my store. Therefore, I must find out what they demand and use that information as the basis for my buying and other merchandising activities." But how is he to determine the amount and type of prospective customer demand? He may talk with people, visit other stores, make a questionnaire survey or study, use want slips, study past sales and stock records, etc.[2]

First the merchant or buyer should determine as nearly as possible the number of people who are likely to be customers of his store or department. If the store is a small neighborhood

[1] The following discussion also applies to the buyer for an individual department.

[2] Some of the more important methods of determining consumer demand will be discussed in detail at a later point in this chapter.

grocery store, the merchant has a comparatively small group of prospective customers, and it may be comparatively easy for him to estimate, within reasonable limits, the amount and type of trade that he will get. On the other hand a dry-goods store in a county seat may draw not only from the entire town, but from the surrounding territory as well. The number and strength of competing stores must be considered by the merchant in determining the total number of potential customers who are likely to become customers of his store Other factors, such as the competition of other trade centers, must also be considered. The case of a shoe merchant in a Western town illustrates the result of failure to study the potential number of customers. The children's shoe section was not showing satisfactory results. A shoe wholesaler investigated and found enough shoes in that section for the whole county for at least three years.

Second, the merchant should determine approximately the amount of money his prospective customers have to spend for the goods he carries. This involves both the question of the amount of income of the consumers and the way in which this income is divided among the various classes of goods purchased by them. For example, if the clothing merchant knows that the average prospective customer has an annual income of approximately $1,500 and that about 20 per cent of this is spent for clothing, he has a tangible basis upon which to plan his buying and selling operations The store must carry merchandise properly priced in line with its class of trade. A grocery store in a wealthy neighborhood will handle comparatively high priced merchandise and may include fancy groceries and specialties, whereas a grocery store in a factory district will handle a lower priced line and will handle primarily staple articles.

Closely related to the above point is the determination of the kinds of types of product desired by the prospective customers. What local habits or conditions are there that affect consumer tastes, and how do these factors influence customer likes and dislikes? Do the climate, nationality of the people, and religious beliefs have a particular bearing on customer wants and desires? If so, in what way and to what extent are they affected? These questions and many others must be considered by the merchant or buyer who wishes to be a true purchasing agent for his community.

Even with the most careful study of consumer demand, the merchant can seldom, if ever, be sure that his purchases are entirely correct, because in most instances he must put together and interpret the various forms of information received from the consumers and then buy what he thinks they want The possibility of errors in judgment means that the study of customer demand must be a continuous one; this provides a basis for changes in buying and selling policies when customer wants have been misinterpreted or when the wants have changed because of changing conditions. Some of the various ways or devices of determining customer wants will be discussed in the following sections

Sales and Stock Records.—It has been said that sin lies not in making a mistake but in making the same mistake twice. Every merchant or store buyer, no matter how skillful, will make a poor purchase at times. To lessen the number of mistakes, he keeps records of his sales and the stock on hand.[1] His sales records give him a history of the past performance of his endeavor to satisfy customer wants. They will tell him how much he sold of each size, style, color, and price line of the different articles.[2] Many buyers have tried to rely on memory for this information, but as the volume of business grows, this method tends to become increasingly inaccurate. Also, changes occur gradually in consumer buying without becoming apparent to the buyer who relies on memory alone, therefore, his belief as to what is selling best will not always correspond with the results as shown by actual sales records

A sales-record system should be developed to meet the needs of the particular store or department in which it is used. The system is not an end in itself, but only a means to an end That end is to give the buyer information that will be of use to him. Among the things he wants to know are the amounts sold in the various sizes, price lines, colors, styles, and materials. For example, if he knows the percentage of the sales of size 8 shoes to total shoe sales or the percentage of sales of men's suits made in the $35 price line, he has valuable information to help him in reordering. Good sales and stock records show what the public has wanted and what it has not wanted It helps the

[1] In some stores, records are kept of many other facts, such as markdowns.

[2] Provided, of course, a unit type of merchandise control is used.

merchant eliminate the "lazy" stocks, that is, those which do not move quickly.

All this information may be dangerous, especially in style goods, if it is not interpreted according to present conditions. A period of depression will cause people to buy fewer expensive goods, whereas just the opposite is true in times of prosperity. Thus, past sales records should be adjusted according to the general business conditions at the time they are being used as a means of judging consumer demand Though light blue may be the popular color for a particular article one season, it does not necessarily follow that it will be during the next. Records may show that articles with an Egyptian motif have been big sellers. A buyer, knowing this to be a fad, will reorder cautiously in spite of the showing of the sales records. The idea that sales records are an automatic guide to buying is the greatest danger to be guarded against in using them

For style goods the records of the present season to date may be more valuable than those of the previous season. When the buyer is "sampling" merchandise early in the season, he pays especial attention to the records for the present season. The conditions under which the sales for the season to date were obtained probably will be far more similar to those of the future weeks than would the conditions of the previous season

A large department store in the East for several years has been analyzing and tabulating the buying habits of its customers, getting the information largely from the monthly bills. Although this store's system is an inexpensive one, it tells among other things how much each customer is buying, how that amount is divided among the various departments, and whether or not she is making use of store sales.

Want Slips.[1]—These are forms filled out by salespeople to indicate to the store or department buyer goods called for by customers but not carried in stock in the store.[2] Some want slips not only call for a notation of desired goods that the store does not carry but in addition have two other sections, one for recording requests for goods that the store carries but that

[1] These are sometimes called "lost-sale" slips or "call" slips

[2] They are similar in purpose to the want book that the small store keeps in which are written down the various items that should be ordered for the store as a whole.

are temporarily out of stock, the other for goods whose stock amount is running low. In some instances the want slips also are used to record the comments of customers on their preferences in merchandise. Want slips differ considerably in form in different stores They should be kept as simple as is possible in light of the amount and type of information desired

A customer may ask for a peach-colored voile afternoon frock, size 38, for about $10 The store may have frocks like this except in the desired shade. Although they are of the right material, size, and price range, the customer, because she is insistent on having the garment in peach color, leaves to shop in other stores. A sale has been lost because this particular shade is not in stock, and so the salesperson makes the proper notation on her want slip.

At the end of the day the want slips filled out by the salespeople are collected and sent either to the buyer or to the merchandise manager. Some stores have the slips made out in duplicate, one for each of these. The buyer may answer the wants shown by these slips in a number of ways: (1) The merchandise may have been in stock, but the salesperson did not know it (2) The goods may be carried in some other department, but the salesperson did not know that and so did not direct the customer to that department. (3) The merchandise may be on order but has not arrived or, at least, is not on the selling floor (4) The goods will be ordered, for the buyer believes there may be a worth-while demand for them. (5) The buyer does not believe there is an effective demand and so will not order. (6) One or a very few of the articles will be purchased at retail, in order to have them in stock for unusual demands.

One danger of the want-slip system is that the store may believe that there is a greater demand for the goods than really exists. If everything were added for which there was a call, there would soon be a large amount of slow-selling merchandise which would slow up the rate of stock turnover. The buyer for the store or department must make sure that there is an effective and worth-while demand indicated. Another danger is that the buyer may feel that these slips are a reflection on his buying ability and so discourage the salespeople in their use of them. Finally, in some stores, great trouble is taken to have want slips filled out and turned in; yet neither the buyer nor the merchandise manager actually uses them as guides in purchasing.

It is often a problem to get the salespeople to use the want slips Some stores require each salesperson to turn in a slip each day. Others have the comparison department "shop" the store to see if the salespeople are recording all lost sales The buyer should encourage his salespeople to fill in these slips. If he explains to them how he uses the want slips and makes them feel that the slips are a real service to him and to the store in its buying, the salespeople are more likely to fill them out intelligently.

Comparison Shopping.—One of the most important methods of finding out what customers want is that of studying competing stores to learn what they are selling. No one store has a monopoly on the knowledge of customer demand, and so it is worth while to watch how other stores are catering to the wants and desires of customers This is not considered an unethical practice, but rather a legitimate means by which a store endeavors to make sure that its own customers are receiving the best values and services As merchants know that competitors are watching them continually, this practice of comparison shopping is an incentive to better merchandising in all stores.

Large stores have their separately organized comparison-shopping departments. In a small store the work may be done by the proprietor himself, his salespeople, or outsiders hired on part time. In most stores the comparison shopping is done by women. They are considered more typical of the store's customers and so better able to view the store and its offerings as would the regular customers.

The functions of comparison shopping may be divided into two classes. (1) merchandise shopping; (2) service shopping. The larger stores employ different people to do each of these types of shopping A merchandise shopper should grow more valuable as she gets more experience. A service shopper is of value to the store only so long as she is not recognized as a shopper

The advertisements, window displays, and special sales of competing stores are studied with regard to the type, quality, and price of the merchandise offered. What is their drawing power? Does this store have similar merchandise, at the same price, and with as wide a variety?

A store may have its merchandise shoppers report on the selling price in other stores of new merchandise that it is about to price.

This precaution is taken to prevent the pricing of goods at figures out of line with competitors' prices, a situation that the average shopper will quickly notice

Many stores have the comparison department approve all advertising before it is published. This is done to make sure that their goods and prices will compare favorably with those of competing stores In some instances, stores have unintentionally put incorrect statements in their advertisements by reason of their reliance on statements made to the store's buyer by the vendor. A New York store advertised an "Extraordinary Sale—Handbags $4 95, Regular $5.95 to $12 50." Upon investigation, it was found that other stores were selling many of these handbags at approximately $4.95. The store buyer said he had relied on the price information given by the manufacturer. If the comparison-shopping department had "shopped" these bags before the advertisement appeared, this inaccuracy would not have occurred

A merchandise shopper may inspect carefully the merchandise in another store, or she may even purchase it to bring back to her own store for the buyers or testing departments. Afterward the goods may be sold to the store's employees or put in with the store's merchandise for sale.

The service shoppers check up on the service offered by the store and compare it with that offered in competing stores. They check not only the service given by the salespeople, but also other service features, such as adjustments, delivery, and credit

Service shoppers have to be changed frequently, or they will be recognized. This would defeat their purpose, for they are trying to view the store objectively through the eyes of an average customer, which means that they must be unrecognized and therefore treated as an average customer. A comparison shopper must be observant, have a good memory, and be able to report clearly what she has observed.

Consumer Surveys.—Frequently many of the customer likes and dislikes can best be determined by direct questioning of the consumer or by inviting her to offer suggestions on the store merchandise or service. One retailing expert has said that the customer's attitude is vital on the following points, and therefore the store should make every effort to determine what this attitude

is: Are assortments of merchandise wide or limited? Are deliveries reliable or unreliable? Is the personal service of salespeople considerate or careless? Are the displays attractive or unattractive? Is the advertising helpful or insincere? These questions and similar ones can be answered by a survey of customer opinion.

Many different methods may be used for requesting or inviting information or suggestions from customers. For the small store with a very limited trading area, it may be a comparatively simple matter to determine the likes and dislikes of most of the customers. However, in a large store with a wide trading area and thousands of customers, it would be a difficult and expensive task to contact all the customers.[1] The work can be reduced and satisfactory results obtained if representative parts of the trade territory or representative groups of the customers are studied, instead of attempting to reach all the customers [2]

A brickbat-throwing contest was the unique means utilized by a large retail organization to find out what their customers did not like about their two major department stores. The stores asked their customers to write frank, honest letters pointing out what they regarded as the weak features of the management and merchandising policies of the store. Awards were offered for the best letters.

A store in Richmond, Virginia, asked its customers to vote on shoe fashions. The event was advertised with the frank statement that the store wanted the customers' composite opinion on the models that should be carried. Balloting continued for a week on some 50 models which were displayed together for comparison in the shoe department of the store The customers signed their ballots and gave their addresses, thus providing a list of interested patrons.

Customer Advisory Committees.—A recent means used by the store to determine customer needs and reactions to store policies is the customer advisory committee. Such a committee is made up of a number of representative customers of the store.

[1] The questions involved in sampling and market-analysis work in general cannot be discussed at this point (see specialized works on market analysis).

[2] An interesting market analysis as conducted by a newspaper is given in "Survey Etches Sharp Picture of St. Louis Buying Habits," *Women's Wear Daily*, Feb. 18, 1941, p. 35.

As a rule, the store tries to have the members represent the various income groups, age levels, and occupational groups to which the store caters. There are three types of these committees:[1] (1) those which advise individual departments in the store, (2) those which advise the entire store, and (3) those which advise a group of stores in a community.

Usually, the meetings of these committees with the store's executives are informal, often at a free monthly luncheon given by the store. Various buyers, the merchandise manager, and the fashion director will meet with the committee. At times, other store executives will attend if the subject being discussed touches their fields As a result of such a discussion, the store hopes to get the viewpoint of the customer This should lead to the store's buying merchandise better suited to customer demand and should result in services better suited to customer desires. Most stores feel that such committees create considerable good will for the store

Fashionist.—Some large stores have a specialist who acts as an adviser to the merchandising and advertising divisions on style and fashion problems in the various lines of goods sold by the store [2] The fashionist studies and forecasts fashion movements, informs the merchandise manager, buyers, and publicity director of these changes, advises and assists in the buying of fashion merchandise, assists in the sales promotion of the goods, and helps with training work dealing with fashion instruction. She also coordinates the styles offered as fashions in the various departments.

In the small store[3] the store buyer or merchant must be responsible for determining customer style preferences and changes in these preferences Although he is at a disadvantage as compared with the fashionist in studying styles and their degree of public acceptance, in that he is not a specialist in that particular line of work, he may have some real advantages as

[1] DONNELL, RENA R, "Customer Advisory Committees in Retail Stores," *Journal of Marketing*, October, 1940, p. 71

[2] A style refers to the characteristics of a product that make it different from similar products The accepted style at any given time is a fashion

[3] Naturally, in some stores, for example, grocery stores, the style and fashion elements are not important factors, at least not as compared with clothing stores.

compared with the specialist in the large store. The merchant or buyer of a small store frequently has a much more personal knowledge of the likes and dislikes of his customers, and he may have a much more complete picture of the store activities as a whole and the way in which style and fashion activities fit into the whole program.

A style usually is accepted at first by a small group of people In this early development the appeal to the consumer is primarily the idea of distinctiveness. Gradually, other people follow these style leaders until the particular style is sold on a wide scale and is termed a "fashion" Then the style is copied in lower priced materials, and price becomes relatively important. The style is no longer desirable to the middle and upper classes of trade, and they turn to some other style. On the basis of consumer-buying motives, Professor Melvin Copeland calls these three periods of the fashion cycle (1) the "distinctiveness" period, (2) the "emulation" period, and (3) the "economic emulation" period

The merchant has a twofold problem: (1) He must determine the extent to which a particular style has developed in popular acceptance. (2) He must get into and out of the merchandising of the product at the proper time. Naturally, these two problems are closely related. Certain types of styles or styles in certain lines of products will pass through the fashion cycle much more rapidly than others The merchant should get information from as many sources as possible to help him in judging the rapidity with which a fashion is increasing or decreasing in importance. If he can determine with a fair degree of accuracy the extent to which a style has developed as fashion, his second problem is simplified. He should merchandise a particular style while it is in the stage suited to his type of trade. For example, a specialty dress shop would handle a particular style of dress primarily during the distinctiveness stage and probably during part of the emulation stage. However, as the style becomes widely copied and is produced in poorer materials at lower prices, it becomes undesirable for sale in that shop. To continue to sell it would mean excessive markdowns, loss of prestige, and, in many cases, numerous complaints from customers

Other Sources of Information on Customer Demand.—In addition to the methods that have been discussed by which the

buyer or merchant can determine and follow customer demand, several other ways are practical and desirable in many cases

The buyer should spend some time on the selling floor helping in the sale of goods and hearing the customers' comments; this helps him in understanding customer demand. He should make it his duty to see that as nearly as possible every customer buys, to see that the customer gets what she desires, to find out in the case of a lost sale the reason why she did not buy, in short, he should get at first hand any information that will help him to buy and keep in stock all the articles required to meet every reasonable demand of his customers. Many buyers would obtain more favorable results for their departments if they turned over more of their buying activities to assistants and then spent this available time on the selling floor with the purpose of discovering how the customers could be best served.

The salespeople in a store constitute a valuable source of information on customers that is frequently overlooked by the buyers or other store executives. In this connection, Kenneth Dameron[1] says,

> . . . An alert salesperson knows her customer's specific want at a given time; she knows the customer's attitude if her want is not satisfied, she usually finds out in the course of a sale her customer's reaction toward the store as a whole, what department she likes, which she does not like, and if she is a regular customer. She knows what store the customer prefers, if she objects to yours, and she invariably knows why the customer prefers the other store. Most of this valuable information is wasted. The salesperson may laughingly relate parts of it to her co-workers or she may wonder why the store is so deficient in some things, but she has no channel of communication to the executive division.

Some buyers and merchants have conferences with their salespeople, or have worked out some other plan by which use may be made of the ideas gained from selling the goods to the customers of the store.

A merchant can obtain much information from following national advertising. This shows new products which are being offered to the public and the appeals by which the advertisers

[1] Dameron, Kenneth, "The Sales Force—Merchandise Counsellors Extraordinary," *Retail Ledger*, December, 1932, p. 9

are attempting to sell the products. Watching the advertisements of leading stores throughout the country is also helpful.

Trade journals are another source of information on customer demand. Each merchant should read at least one good trade journal in his particular field. Frequently, the salesmen of wholesaling or manufacturing concerns can give the merchant many valuable suggestions as to new developments in his line of goods. The value of this information should be judged on the basis of the merchant's judgment of the common sense and reliability of the salesmen Among other sources that might be mentioned are daily newspapers, resident buying organizations, and contacts with other buyers or merchants

Trading Up.—Though stores primarily try to interpret customer demand, many of them at the same time try to guide it. The attempt on the part of retailers, particularly those selling ready-to-wear, to feature and sell goods of higher price and better quality is called *trading up*. The stores attempt to teach the customer to think more of quality and less of price.

The tendency on the part of most stores during the past depression was to emphasize price. This price competition and price advertising led to trading down and to a lowering of quality that filled the stores with a flood of cheap, shoddy merchandise. Great emphasis was placed on "sales" and "bargains." The trend now seems to be back to better quality merchandise again.

In trading up, the buyer or merchant should buy and carry in his store merchandise that has real beauty and value. Often, this trading up must be a gradual process. The customers must be taught the difference between immediate and long-run economy; then they can see a reason for buying better quality merchandise. As a store convinces the public of the desirability of its merchandise, it will find the price element becoming less important.

Likewise, many people have to be taught the importance of style. The salespeople must be trained to suggest and show style to customers and to help them choose widely.[1] This means

[1] A large department store in New York has a sales staff of fashion experts in several departments. Their work is (1) to instruct salespeople in style,

showing qualities of goods as well as helping the customer to pick out appropriate styles. As the customer's attention is gradually shifted from price to quality, style, and lasting satisfaction, there is built up good will and a steadier clientele, as well as greater profits for the store.

---

(2) to help them to close sales in transactions dependent upon fashion authority, and (3) to take part in ordinary selling

These fashion experts are in the departments at all times working as salespeople. When a customer cannot be sold without style information, the salesperson introduces the fashion adviser, who completes the sale.

CHAPTER VIII

BUYING

PREPARING TO PLACE THE ORDER

Importance of Retail Buying.—"Goods well bought are half sold" is an often-stated axiom in retailing. In other words, the more customer demand has been anticipated in the buying, the more readily the goods will sell. Thus the success of the selling activities of a retail store is greatly affected by the ability exercised in the buying of the merchandise. The buyer must remember that the merchandise is bought for resale and that it cannot be sold unless it meets the needs and desires of consumers and is made available to them at prices they are able and willing to pay.

Attention has already been given to the basic importance of the modern customer in the merchandising program of the retailer.[1] The changes in the present-day customer and her method of purchasing, as compared with the customer of 25 years ago, have greatly increased the responsibility of the buyer and have made his work more exacting. Formerly the customer was almost entirely dependent upon the retailer for new ideas and new merchandise, and she purchased to best advantage from what was offered. The present-day customer gets new ideas currently from many sources, such as travel, radio, motion pictures, newspapers, and fashion magazines and is insistent in her demand for the merchandise that she thinks to be in fashion. Standing as he does at the point where producer and consumer meet, the buyer assumes great responsibility in the marketing system. It is through him that consumer demand is, or should be, interpreted and transmitted to the manufacturer and that many new merchandise items and ideas reach the consumer.

Another characteristic of the modern customer's method of purchasing that makes the buyer's task more exacting is her tendency to shop around from store to store for the purpose of comparing prices, assortments, and quality. This practice,

[1] See Chapter VII, p. 106.

together with the privilege of returning merchandise for credit or exchange, has tended to standardize somewhat the whole retail price and service level Thus, it has become very difficult for the buyer to cover up a poor purchase, for the consumer in many instances can and does compare the goods offered with the merchandise of competitors. With further growth of the "consumer movement"[1] it is likely that the consumer will become even more selective and more exacting in her demands so that to an even greater extent the success of a store will be based upon the buyer's ability to select the new merchandise to suit the store's particular clientele and to detect and dispose of the old merchandise with minimum loss.

Place of the Buyer in the Store.—In the small independent store the buying ordinarily is done entirely by the owner. If the store is large enough to require several salespeople, the owner may simply supervise the buying and delegate much of the buying activity to the head salesperson. However, even in stores with annual sales ranging up to $1,000,000 or more, it is not uncommon to find the chief owner or owners actively engaged in the buying of certain lines of merchandise.

In department stores, as has been pointed out in the discussion of store organization,[2] the buying, as well as other merchandising operations, is carried on by departments. Ordinarily the buyer for a particular department is also responsible for the selling and other activities of the department; thus, he is in reality a department manager. Although in very large stores each buyer may buy for only one department, it is quite common for a buyer to purchase goods for a number of departments.

In the chain-store system the buying and selling functions are ordinarily separated. The buying is usually done at the central office by buyers who specialize in particular lines of goods, and the managers of the stores devote their time primarily to the selling function. The buying arrangements vary considerably in different chain organizations with regard to the latitude given to the store managers in the selection of goods.[3]

[1] See Chap. VII.

[2] See Chapter VI, p. 90

[3] For a discussion of the various types of central buying, see Norris A. Brisco and John W. Wingate, *Buying for Retail Stores*, pp. 306–310, Prentice-Hall, Inc., 1937.

Fundamental Buying Considerations.—The buying activities, in common with other store functions, must be carried out in conformity with store policies if the entire operation is to produce satisfactory results. A store policy is a clearly defined course of action or procedure adopted and followed by a store. It differs from a store principle which is a fundamental standard or rule of action based upon permanent considerations and from which the store should not deviate For example, honest treatment of customers should be considered a store principle, whereas the selling for cash only, rather than on credit, is a store policy. Store policies may be changed from time to time as conditions seem to warrant; however, in carrying out the store policies, the underlying principles of the store should be followed without deviation.

It is highly important that the buyer of a particular line of merchandise carry out his buying and other activities with the idea not only of securing a satisfactory profit on that merchandise, but also of contributing to the general prestige and profit of the store as a whole. Thus, it is essential not only that the buyer know store policies, particularly in so far as they affect buying activities, but that he follow them in making his buying plans and in carrying out the actual purchase. For example, if a store has the merchandising policy of handling regular, complete assortments of high-quality merchandise, the purchase of job-lot[1] merchandise by the buyer may be detrimental to the store's prestige Many other examples could be given to show that not only the question of what to buy, but also other buying questions, such as when to buy and where to buy, can be properly answered only after considering store policies. A few of the fundamental decisions as to store policies, particularly as they affect the buying of goods, will be discussed in the following paragraphs

1. *Decision as to Type of Clientele to Serve.*—If a store is to act effectively as one of the purchasing agents for the consumers in its community, it must determine the clientele that it wishes to serve and buy accordingly. In a small town a store may cater to the whole community, attempting to meet the wants of all

[1] A job lot is a miscellaneous assortment of sizes, styles, qualities, and quantities of merchandise offered by the vendor at a cut price. For a further discussion, see p. 158.

different classes. In a larger community, stores tend to cater to certain classes of trade. Some will cater to the high-class trade which can pay high prices for the best merchandise. Others appeal to the middle classes and still others to those who want cheap merchandise. Relatively few stores can sell successfully to all classes of trade Thus the store must determine its place in the community with respect to the different classes of customer. This decision serves as a definite guide to the buyer, provided that he familiarizes himself with the desires and requirements of the general class of customer at which the store is directing its efforts

2. *Decision Regarding Types of Merchandise to Carry* —The buyer's selection of particular items of merchandise must be in harmony with the basic store decision as to types of merchandise to handle. Is the merchandising policy of the store one of stressing regular, complete assortments of high-quality merchandise or of promoting primarily special purchases that involve wide variations in assortments, such as job lots? Or does the store wish to handle medium- or lower priced goods, but on a regular assortment basis? Clearly the decision as to type of merchandise to be carried is closely related to the store's policy as to type of clientele to serve.

3. *Place of the Store and Its Merchandise in the Fashion Cycle.*—As has previously been pointed out, the term *fashion cycle* refers to the wavelike movement in the degree of public acceptance of a style [1] During the various phases of the growth, culmination, and decline of a style in public favor, there are marked differences in the buying motives that prompt customers to buy the style and in the classes of trade to which it can be sold; thus a store cannot sell successfully during all the stages of the fashion cycle. The store must decide its place in the fashion cycle, and then the buyer must make his buying and other merchandising plans accordingly. For example, in a high-grade specialty shop operating in the early stage of the fashion cycle, the buyer will keep new merchandise constantly coming in, and the individuality and exclusiveness of the styles will be important factors in his selection of the merchandise. On the other hand, a medium-grade specialty store or a high-grade department store would ordinarily be operating in the "popular-

[1] See Chapter VII, p. 120, for a more detailed treatment of the fashion cycle

ity" stage of the fashion cycle, thus the buyer would purchase complete stocks of the styles that had proved widely acceptable to the public, in other words, the fashions.

4. *Price-lining Policy of the Store.*—*Price lining* refers to the practice of deliberately limiting the number of prices at which a particular line of merchandise is offered for sale. The store determines the prices which are most popular with its customers and establishes these as the price lines at which the merchandise will be priced when purchased and placed in stock. Ordinarily, when a line of goods is offered at a wide number of prices, an analysis of sales will indicate that a relatively small number of the prices account for the bulk of the sales As an example of the need for price lining, a shoe store might be offering its line of men's dress oxfords at a dozen or more prices, ranging from a low of around \$5 to a high of \$10 or \$11 Obviously the spread between the prices would be small and would represent little difference in quality In place of this situation the store might find that its shoes could be grouped into the following small number of price lines: \$5 95, \$6.50, \$7.75, and \$9.75.[1]

One of the great advantages of price lining is its tendency to make purchasing easier for the customer. A large number of prices make for confusion on the part of the prospective purchaser. For example, if a store carries in lower priced shirts some at \$1.25, others at \$1 35, and others at \$1.45, this will be confusing to customers The natural question is, "What is the reason for these small differences in price?" Questions of that type make it difficult for the customer to reach a final and favorable decision on the prospective purchase. Thus the establishment of a limited number of properly spaced price lines makes it easier for the customer to purchase, which decreases the selling cost for the store and tends to build good will on the part of the customer

In addition, price lining frequently makes it possible to reduce the total stock in a particular line of merchandise and yet offer better selections at each of the restricted number of prices at which the item is sold. The elimination of those prices at which relatively few sales were made helps to improve the rate

[1] Detailed discussions of the methods and procedure for setting up price lines are given in a number of books on retailing · See John W. Wingate and Norris A. Brisco, *Elements of Retail Merchandising*, pp. 339–347, Prentice-

of stock turnover It also tends to reduce markdowns, for goods marked at unpopular prices frequently can be sold only after being reduced to a popular selling price. The reduction in number of prices at which an item is handled also simplifies the work of stock control.

Some stores concentrate their offerings of many of their merchandise lines at three price levels.[1] Experience has shown them that sales center around low-, medium-, and high-priced items. These price lines differ for different classes of store. What would be considered high-priced suits in a cheaper store would be considered medium-priced in another store and low-priced in still another store In a certain store, more suits may be sold at $30, $45, and $65 than at any other prices. So the store will carry full lines of suits at these prices. It may carry a few suits at other prices but not complete assortments A few higher priced suits may be carried for the prestige value. By stocking heavily only on those price lines that experience has shown to be profitable, the store can carry full assortments in these lines that are in demand and yet cut down the size of the inventory and speed up turnover.

If a store has a policy of well-defined price lines in many of its merchandise items, these price lines constitute a fundamental consideration in the purchasing of goods for resale in the store. Essentially the buyer buys backward from a selling price, rather than purchasing the merchandise and then figuring at what price it shall be marked His problem is one of finding merchandise suitable for sale at the predetermined retail price and that can be bought at a cost price allowing him a satisfactory markup.

Hall, Inc., 1938, Harold A Baker, *Principles of Retail Merchandising*, pp. 163–170, McGraw-Hill Book Company, Inc , 1939; also, *The Buyer's Manual*, pp 91–93, 98–116, Merchandising Division of the National Retail Dry Goods Association, 1937.

[1] In some instances the price structure of a department or store may be built in terms of price zones rather than price lines. Thus a merchandise line would be marked at prices within a particular zone or range, designed to appeal to customers of a particular income class. For example, in a rug department instead of having five or some other limited number of clearly established price lines for rugs of a particular type, the rugs might be priced at various prices within the three price zones of $29 50 to $45.00, $49.50 to $65, and $70 and over

5. *Other Store Policies Affecting Buying.*—Many other examples might be given of store policies that the buyer must consider in carrying out his part of the entire store operation. For example, the store policies as to stock turnover and the control of slow-selling merchandise, merchandise planning and control, and relations with vendors[1] would all affect the activities and procedures of the buying organization of the store.

WHAT TO BUY

Importance of Consumer Demand.—Successful buying by retailers is based on supplying consumer demand that either exists or can, with reasonable effort, be made to exist. Thus the determination of what to buy is essentially a matter of careful analysis of customer demand. To be successful a merchant must carry the merchandise that his prospective customers want and expect to find in his store, therefore, he must find ways of finding out what these desires are and then must use this information as the basis of his buying.

The general problems confronting the retailer in his determination of consumer demand and the ways or devices by which he may attempt to answer these problems have been discussed in detail in Chap. VII; thus, no further discussion of customer demand will be given in this chapter except in so far as certain aspects of customer demand must be treated in connection with the discussion of specific buying activities. However, it must be kept in mind that not only what to buy, but other leading buying questions, such as when to buy and where to buy, must be answered squarely from the standpoint of the customer. If the buyer is not thoroughly familiar with the store's type of trade and the wants, tastes, and interests of these customers, no amount of merchandise knowledge, skill in bargaining, or other specialized knowledge or ability will enable him to buy goods that can be sold profitably.

Planned Stocks and Assortments.—If the analysis of customer demand is to provide an effective basis for buying, it must lead to the determination of the proper stocks for the various items carried. In other words, before a merchant can buy properly,

[1] Store policies with regard to vendor relations deal with such matters as return of merchandise, cancellation of orders, exclusive agency arrangements, and the taking of cash discounts after due date.

he must know the specific articles that should be carried and the necessary quantities for each. The planned assortment of merchandise that would constitute both the proper items and the correct amounts may be prepared in various forms. In the case of staple merchandise, this frequently consists of a "basic-stock," or "checking," list which lists the specific items to be stocked together with quantities for each [1] Chain-store organizations ordinarily use basic-stock lists in their stores. In some lines of merchandise, certain wholesalers now furnish to the retailers buying from them a checking list that indicates the items the stores should stock These lists ordinarily indicate also the prices that would be in line with the prices of the chain stores The retailer in some lines of goods also may receive aid in the planning of his stock assortment from the manufacturers of the products. For example, a shoe manufacturer might furnish information as to the proper assortment of sizes, styles, and colors, to a retailer handling that particular line of shoes.

After the retailer has determined the articles that should be stocked and the amounts required to provide reasonable assortments, he has largely answered the question of what to buy. Through his inspection of the stock on hand or by the use of stock-control systems, he determines at various times the items and amounts that should be ordered to maintain these stocks. As consumer demand changes or as evidence arises that he has improperly interpreted that demand, the retailer must adjust his stock plans and the buying based upon them.

WHEN TO BUY

Buying Calendar.—Some buyers systematically outline their coming promotional activities as a basis for determining when goods should be purchased. All buyers have such a plan in mind in a general way; however, if this is put down in black and white, the buyer is more likely to do his buying at the proper time. A buying calendar outlines the time when the buyer should begin buying for a particular season or showing, when this showing should open, when the selling peak would normally be reached, and when the season or showing should close.

[1] For a detailed discussion of model stocks and buying plans for both staple and fashion goods, see Norris A Brisco and John W. Wingate, *Buying for Retail Stores* Chap 7 Prentice-Hall Inc 1937.

Ordinarily the buying calendar also should provide for timing of the buying for the many special events or periods such as St. Valentine's Day, Washington's Birthday, Easter, Halloween, Thanksgiving, graduation time, June weddings, vacation period, and the opening of school Each of these may call for special buying, which must be done in time to have the goods on display when the customers will be wanting such items.

Buying Staple Merchandise.—When buying staple goods, a merchant may buy in fairly regular amounts throughout the year or season It is essential that these staple items be purchased according to some routine or planned method that will insure a satisfactory stock at all normal selling times for these articles. It is to the retailer's advantage for customers to learn to rely on his store for their common needs. He cannot build up the assurance on their part that these needs can be filled at any time if he frequently is caught out of stock on staple items. With respect to certain staple items, it may be desirable for the merchant to set maximum and minimum stocks as a basis for preventing "outs" and at the same time avoiding larger stocks than are necessary [1]

In many instances the frequency with which orders are placed for staple merchandise will be largely dependent upon the method of placing the order For example, in an independent food store, the bulk of the purchases of canned and packaged foods probably will be made through the traveling salesmen of the wholesalers from whom the merchant buys. Thus the calling schedule of these salesmen may determine the frequency of order for many items [2] In any store the particular intervals at which merchandise is purchased are greatly affected by the store's general policy regarding buying for current needs as against buying for future needs This issue is discussed at length at a later point in this chapter in the treatment of Hand-to-mouth Buying.

Buying Fashion Goods.—The buying of merchandise with a fashion element presents a much more difficult problem than the buying of staple lines. A style may develop rapidly in

[1] The control of stocks in terms of physical units is discussed in detail in Chap. XIII.

[2] Obviously, these orders may occasionally be supplemented by mail orders

popular acceptance, become very popular, and then decline in popularity even more rapidly than it developed. The buyer must purchase soon enough to get his share of the demand for a style but must stop purchasing the merchandise in time to prevent a large leftover amount which would mean a large loss.[1] Other styles are introduced but never "take" or become popular; this fact, also, necessitates extreme care in purchasing.

At the beginning of a season a buyer will usually "sample" his fashion merchandise. This means that he will make small purchases at first of the styles that appear likely to become the fashions for the coming season. If these early purchases are accepted by his trade, he then can order of them more heavily for the real selling season. However, even then he cannot buy for any length of time ahead, for a style may change somewhat even while the style in general remains in fashion. Fashion merchandising involves continual effort and observation to see that there is enough stock on hand to meet customer demand and at the same time not so much that the store will be caught with unsalable merchandise.

If a buyer buys too heavily at the beginning of the season, he has his money tied up in slow-moving merchandise and has used up most of his buying allotment; this makes it difficult or impossible for him to make adjustments for a delayed season or for changes in fashions.

As a season advances, the buyer must become more cautious in the purchase of fashion merchandise. During the first part of a season, customers are willing to pay a comparatively high price for fashion merchandise, for fashion is tho thing uppermost in their minds. Those customers who wait until the last half of the season to purchase are influenced primarily by price considerations. If the buyer has too much of the merchandise on hand after the height of the season, the markdowns necessary to move the goods may more than balance his substantial profits of the first part of the season. As a result, when a season has just passed its height or a fashion has just started to wane, a buyer

[1] As pointed out earlier in the discussion of Fundamental Buying Considerations, the times at which a retailer should get into and out of the merchandising of a fashion article depend basically upon the store policy as to the place of the store and its merchandise in the fashion cycle

may cease to buy altogether, although his sales are heavy. A few retail sales may be lost that way, but the volume of markdowns is reduced considerably.

A buyer often tries to have a few new things coming into the store continually, even though it may be near the end of the season. This is done so that the customers will feel that whenever they come into the store it will have something new or different to offer them; thus the store will exert a steady pull on its trade.

HAND-TO-MOUTH BUYING

Definition.—Buying for immediate needs only, rather than stocking up for a considerable period of time, is called *hand-to-mouth buying.* This is not haphazard or unplanned buying, as might be inferred from the meaning that has been given to the phrase "hand-to-mouth" in other connections, but simply the practice of buying goods for current needs rather than for future expectations Thus, it involves buying in smaller quantities and placing orders more frequently.

Conditions That Make Hand-to-mouth Buying Possible.—It has become possible for retailers to buy small amounts frequently, rather than larger amounts with long intervals between orders, largely because of the many improvements in the transportation and communication facilities of this country. These changes have enabled the merchant to purchase less far ahead and to demand quicker delivery on his orders. The retailers' orders reach the manufacturers and wholesalers quickly by air mail, telephone, or telegram; and the vendors put the orders through promptly. Railroads provide fast freight service; truck lines offer a similar service over narrower districts; and air express is of increasing importance, particularly in the shipment of fashion merchandise. As a result of these improvements in the physical handling of orders and shipments, a merchant can do business with a smaller stock, knowing that the stock can be replenished quickly

Reasons for Hand-to-mouth Buying.—Although the practice of hand-to-mouth buying is relatively old in American business, its widespread use is ordinarily thought of as dating from about 1920. The downward trend of prices during 1920 and 1921 had a powerful influence in causing stores to buy for their immediate

needs only. Many were caught with heavy inventories of high-priced merchandise which had to be cleared out at a big loss. The memory of this has been one of the factors causing stores to buy more cautiously since that time.

An important reason for hand-to-mouth buying of many products is the rapidity of change in the degree of public acceptance of particular styles. It is not safe to load up for any period of time with merchandise with a fashion element, and many articles that formerly were staples now have certain fashion characteristics.[1]

The desire for a high turnover is another motive. If he can avoid maintaining unnecessarily large stocks, the merchant can turn his stock over more quickly and so get a higher percentage of profit on his investment during a particular period. He is urged on all sides to do this, by his bankers, by vendors from whom he buys, and by his own conventions and associations.

In addition to the advantage of more efficient use of capital through hand-to-mouth buying, the merchant benefits by a constant flow of new goods, which stimulates business as a result of up-to-date styles and reduces the amount of markdowns Buying for current needs also eliminates the risks that are inherent in commitments for future needs.

Disadvantages of Hand-to-mouth Buying.—From the viewpoint of the retail store, there are two great disadvantages to hand-to-mouth buying. There is the danger that the store will not keep an adequate stock. In its effort to do business on as small a stock as possible, it may carry the idea too far and frequently be out of merchandise that the customer wants. On many items the consumer purchases are not steady. For several days, there may be no sales; then, on the next, there may be a number of calls for an item. This makes it easy for a store to exhaust its stock of an article before it is realized that the stock of that item is low. An unduly small stock does not display well and thus is not an incentive for customers to purchase. Purchases should be made in sufficient quantities so that the stock of

[1] A fashion is a popularly accepted style. The style of an article (that is, the physical features that distinguish it from other merchandise of the same type) that has been in stock for a considerable period may be perfectly usable physically and the article not sell because the public no longer accepts the style as the fashion.

a given item will normally last until it can be reordered and so that it will make an attractive display

The other disadvantage is that of increased cost of buying By buying in small quantities the store sacrifices the lower price that would come with quantity purchases [1] Buying smaller amounts frequently rather than larger amounts less frequently increases the transportation costs and many of the costs involved in ordering and receiving the goods in the store.

Effect of Price Level upon the Purchasing Policy.—Changes in the general price level exercise an important effect on the policy of retailers as to the amount of advance buying. As already pointed out, the rapid spread in the 1920's of the practice of hand-to-mouth buying was largely a result of the drop in the price level immediately following the 1919 to 1920 boom. On the other hand, a period of rising prices tends to reduce hand-to-mouth buying. This is particularly true if, as under the national defense program, it is difficult for retailers in certain lines to get merchandise Under such circumstances of rising prices and possible shortages of merchandise the natural tendency of the retailer is to place orders further in advance and to contract for larger quantities than are necessary to meet his normal stock needs. On such a market, the retailer as a *merchandiser* should plan his buying to protect his competitive position so that he can obtain a satisfactory merchandising profit; if he buys primarily with the idea of obtaining a speculative profit from the anticipated price increase, he is essentially a speculator in commodities rather than a merchant. Obviously, however, the line between speculative buying and advance buying that represents simply the exercise of intelligent merchandising foresight is not easy to draw.

WHERE TO BUY

Sources of Supply.—As an important part of his preparation for buying, the retailer must choose the most suitable sources of supply for the different lines of merchandise. The available sources may be classified broadly as: (1) manufacturers or growers; (2) middlemen operating between the producers and

[1] There is probably greater danger, however, of a store leaning too far in the opposite direction and overloading to get a quantity price

the retailers. Thus the decision of the retailer regarding source of supply first involves a choice of type or class of source.

The retailer's decision as to whether to buy from producers or from wholesalers should be made after a consideration of such factors as the nature of the merchandise, the amount of goods purchased, the location of the store, the marketing policies of producers, the number of local wholesalers and the character of their service, and the general buying policies of the store In the case of much fashion merchandise the buyer may prefer buying directly from manufacturers in order to keep close contact with the market and to secure prompt delivery of new styles. The sales volume of a store and particularly the size of orders for given lines of merchandise may determine the practicability of purchasing directly from producers. Many retailers purchase all or many articles in such small amounts that buying from wholesalers is the only method open to them. One store may be located in a large market center and thus find direct contact with producers practical in many cases; another store in a rural area may find it necessary to buy entirely through wholesalers. The number and general character of service of the wholesalers available to a retailer also affect his choice of source. If the wholesalers are providing him with dependable deliveries of merchandise and satisfactorily extending credit aid and other services, there may be little incentive on the part of the retailer to buy directly.

The retailer's choice of producer or wholesaler as a source also depends partly upon the producer's choice of marketing channels for his product. For example, the manufacturer of a convenience good needs wide distribution for his product among retail stores and ordinarily finds it more economical to get this wide distribution by selling through wholesalers. On the other hand, the producer of a specialty good needs relatively few retail outlets, but it is highly desirable that the merchandising and service policies and methods of these stores be in keeping with the standards that the manufacturer has set up for his product. Consequently the producer attempts to deal directly with the retailer, frequently on an exclusive agency basis. The general buying policies of a store also affect the choice of type of resource. For example, a policy of extreme hand-to-mouth buying, involv-

ing as it does frequent small orders, may require that the purchasing be done largely from wholesalers.

Many retail stores purchase both directly from producers and through wholesalers. Even in the large-volume store that is purchasing most of its merchandise directly, it is frequently desirable to place "fill-in" or emergency or other special orders with wholesalers. On the other hand, many small retailers who buy the bulk of their products from wholesalers often purchase certain articles from growers or manufacturers, particularly local ones.

Selection of Specific Resources.—The second problem confronting the merchant in connection with determining where to buy is the selection of specific resources from the many firms ordinarily competing for the retailer's orders. In evaluating the various possible resources the retailer should consider primarily the suitability and dependability of the merchandise, the reasonableness of prices and terms, and the adequacy of delivery

The suitability of the merchandise to the store's clientele is of basic importance in the choice of a resource. Successful buying requires the selection of resources whose merchandise meets the quality, style, assortment, and other standards as determined by an analysis of customer demand. If the merchandise is sold under a brand name, how well established is the brand? Does it have prestige that will help to make the article attractive to the store's customers? If the goods are fashion merchandise, what are the reputations of the various vendors as to fashion leadership? The buyer must also consider the reliability of the vendors as to the quality of tho merchandise offered. Can they be trusted to adhere to specifications and to maintain the quality standards of the merchandise? Such questions as these must be considered by the buyer in determining which vendors are possible sources of the "right" merchandise.

A second major consideration in choosing specific resources is the prices and terms at which the goods are offered. Price is significant only in relation to a particular quality, thus, it is essential that the retailer be sure as to the suitability of the goods before he judges the price offer. Goods that are not in keeping with the demands of the customers of the store are not a "good buy" at any price. Assuming that the retailer is satisfied

as to the quality and dependability of a line of merchandise, he must then determine whether the goods can be purchased at a satisfactory price. A satisfactory price is one that will permit the retailer to offer the merchandise to his consumers at a competitive price and still get a satisfactory markup. The terms of sale must be considered as an essential part of the price offer. For example, the obtaining of a more favorable discount amounts to the obtaining of a lower price

The third important consideration in evaluating resources is the adequacy and dependability of the delivery service The prompt and dependable delivery of goods is essential to the success of the merchandising of that merchandise by the store Regardless of how suitable the merchandise and how favorable the price, it cannot be sold successfully if it is not received at the time needed and in the quantities and assortments desired. Consequently, it is important that the retailer consider such questions regarding the vendors as: Are they able to supply quantities up to the maximum that may be needed, or are they willing to deliver in the minimum quantities desired? How quickly can deliveries be obtained from the different vendors? Which vendors can be depended upon to give regular deliveries in accordance with specifications in the buyer's orders?

In addition to the basic factors of merchandise suitability, price and terms, and delivery, the retailer frequently gives attention to certain other considerations. For example, what is the past record or reputation of a vendor as to fairness in dealing with complaints? Or what dealer helps, such as advertising or display material, are offered by the various vendors? To what extent is a vendor willing to cooperate with the retailer or store buyers in handling unusual needs of the store? These and many other questions may be asked by a retailer in his attempt to select the most suitable resources for the goods that he handles.

Resource File—A buyer should keep a record of his past experience with the houses from which he buys. Are their prices usually right? Is their merchandise of good quality? Did it sell well? Are they prompt in delivery? Did the store or department make a profit on the goods purchased from these vendors? What are their selling terms? These are some of the questions the buyer should be able to answer when he is determining from what vendors to buy.

In order to have all this information on past experience in a convenient and usable form, many buyers maintain a resource file This file usually is in the form of a card catalogue in which each card bears a record of the store's experience with a particular vendor.[1] By glancing at the card for a certain selling house, the buyer can see whether past experience has shown that vendor to be a desirable resource In some instances, informing a vendor why the buyer does not consider him a good source and showing this card record as a proof may help improve the selling house so that it becomes a highly desirable buying source.

A merchant or buyer must remember that, even as he is influenced by his past dealings with a vendor, so is the manufacturer or wholesaler influenced by the merchant's attitude. A merchant should maintain good relations with the individuals or firms from which he purchases and should not make unfair demands upon them, such as cancellations of orders and failure to abide by the credit terms. By maintaining proper relations, the merchant or buyer can expect better service and information from the vendors.

Concentration of Purchases.—It is usually considered better to purchase from a few vendors rather than from many. Particularly in the case of the small store, concentration on a few sources enables the retailer to give each of them enough business to entitle him to prompt deliveries, greater discounts, and special values when they are available. When a store places substantial orders with a manufacturer or wholesaler, the account naturally is considered a valuable one and the vendor is more careful in the service given to the store.

Concentrated buying does not mean buying continually from a certain source through habit. Although the bulk of a store's purchases probably will be concentrated among a few houses that experience has shown to be desirable connections, for at least a part of the highly styled merchandise and novelty goods the buyer must be continually studying all sources and seeking the best. It is through scattering this smaller part of his pur-

[1] The information on the card varies according to the needs of the buyer but usually should give the vendor's name and address, terms, name of salesman with whom the buyer deals, merchandise carried, prices, deliveries, and remarks.

chases that the buyer or merchant can always provide something new and different for his customers.

Summary.—In this chapter, attention has been directed primarily to those buying decisions which must be reached and the activities which are carried on largely as preparatory to the actual placing of the order for merchandise As has been pointed out, the starting point for all buying activities is a careful analysis of customer demand; the basic buying questions of *what*, *when*, and *where* must be answered squarely from the standpoint of the consumer. The buyer must be thoroughly familiar with the store policies as they constitute the limits within which his judgment is to be exercised He has to determine what to buy, at what time to buy, and from what resources to make these purchases. After these decisions have been reached, the actual purchase is made The various methods by which the retailer may place his merchandise orders and certain of the activities or considerations involved in the actual process of selecting the goods, arranging terms, and so forth, are discussed in the following chapter

CHAPTER IX

BUYING.—*Continued*

PLACING THE ORDER

Buying Methods

The retailer may place his orders for merchandise (1) by direct communication with the resource; (2) through salesmen of the wholesaler or manufacturer; (3) by making trips to the market; (4) through resident buyers; (5) by central buying, (6) by cooperative buying, including group buying and other forms.

1. By Direct Communication.—Practically all stores buy a part of their merchandise by mail, telephone, or telegraph orders Retailers continually use this method for reordering articles, especially in the case of staple products Hand-to-mouth buying necessitates frequent purchases Because a large proportion of these purchases are simply routine orders, that is, reordering what the store is low on or out of, it is a simple matter to place them by mail, telephone, or telegraph. With the present-day rapid means of communication and transportation, merchandise ordered by this method can be obtained in a short time.

Some manufacturers and wholesalers sell entirely by mail by sending out catalogues to the retailers. The retailer can order from these catalogues as frequently as he pleases. Other manufacturers or wholesalers use this type of selling to supplement the work of their salesmen.

2. Through Salesmen.—Buying from salesmen has long been used as an important buying method by both the large and the small store Some of these salesmen represent manufacturers who are selling their products directly to the retailers; the others are wholesalers' salesmen.

The old-time salesman, or "drummer," went from town to town with large trunks full of samples which were displayed at the sample room of the store or in a sample room provided by the hotel. The salesman of today relies less on samples and sells

more by description. His only selling luggage may be a brief case.

Some merchants and store buyers allow their personal feeling for or against the salesman to enter into their buying, and others dislike to see any salesman; either attitude is wrong Some merchants and buyers have been known to buy a new line of merchandise for the simple reason that they knew and liked the salesman If the buyer is acting as purchasing agent for his community, it is the goods that offer the best value that he is seeking, this has no connection with his personal likes or dislikes for individual salesmen.

The buyer should treat all salesmen with consideration. If he shows consideration for them, they are more inclined to do their best for him in calling his attention to special buys, in rushing shipments, and in performing other special services, all of which frequently are of great value to the buyer.

It may seem to a buyer that it is a waste of time for him to see all the salesmen that call. Some stores require a buyer to see every salesman at least once.[1] The chief reason for this requirement is that now and then a buyer will discover a desirable new source, new ideas, or valuable style effects These will more than balance the time he apparently has wasted in giving every salesman a chance to present his goods and ideas. Many stores maintain a sample room in which the salesman may display what samples he carries with him. In any case, it is better for the buyer to deal with him in his office or in the sample room rather than on the selling floor.

Some salesmen make regular calls, chiefly to take reorders for staple and convenience goods. Because giving orders of that type does not involve a great deal of skill, the task is often turned over to assistant buyers in the large stores or to a promising salesclerk in the smaller store. This practice lets the buyer or proprietor spend his time on those purchases which require thought, skill, and bargaining. At the same time, it gives the assistant some experience in buying.

3. Trips to Market.—In many lines of goods, trips to the market have become a basic method of purchase. Particularly in the buying of fashion merchandise, it is important that the

[1] An unusual result of this policy is described in "It Pays to See Salesmen," *Journal of Retailing*, April, 1940, p. 50.

buyer visit the central market. The rapid changes in popular acceptance of given styles, especially in apparel lines, make it essential that the retailer handling such merchandise keep in constant contact with the important buying markets and fashion centers through buying trips and through market representatives

The frequency with which a buyer visits the market depends, among other things, upon his nearness to it, the sales volume of his department or store, the type of store or department, general business conditions, and whether or not the store has a resident buyer The average buyer wants to go before the opening of the season to make early purchases. As soon as the retail season starts, some buyers place by mail or through salesmen their larger orders based on the preseason and early-season experience; others prefer to go to the market again at this time for buying.

Trips to Market Have Two Objectives—In making trips to the market the buyer has two purposes in mind, the purchase of merchandise and the obtaining of information. Especially in the case of fashion merchandise, the large central markets should be the buyer's or merchant's source, not only of merchandise itself, but also of merchandising information For example, the large markets of New York and Chicago with numerous manufacturing establishments, wholesale firms, merchandise marts and trade shows, resident buying offices, trade-association headquarters, and large retail establishments not only constitute great sources of supply of merchandise but in addition are important founts of merchandising ideas.

Merchandising information obtained by visiting the central markets helps the buyer or merchant to keep fashion-right merchandise continually before the customer, to increase turnover, to lessen markdowns, and to save time in merchandise selection. In some cases, personal contact with market conditions may be so important that the buyer makes trips to the central market primarily to obtain information rather than to purchase.

Because the trip to the market usually is at least partly for the purpose of obtaining information, the buyer should visit not only the manufacturers and wholesalers but the retail stores as well. In the high-class retail establishments of the central market, he will find the goods that those stores have decided their customers want. Because fashion information travels very quickly, these goods give the buyer an idea of what his home community

probably will be demanding in an extremely short time. A visit to the cheaper stores and bargain basements will show the styles that have passed their zenith. If a particular fashion has passed its peak in the central markets, it will soon be decreasing in popularity in other parts of the country. In the medium-priced stores the buyer will find those styles which are accepted by the average customer Before long, they will have passed the height of their popularity; hence, the buyer should not purchase heavily of these styles unless he can do so at a price that will permit him to sell them quickly After a fashion has definitely passed, it is hard to sell the remaining goods at any price

A buyer should go to market with a buying plan This plan should be based on his customers' desires as shown by his stock-control records, the reports of salespeople, and the other methods of determining customer demand. By going to market with a fairly definite idea of what he is seeking, the buyer can save much time; for he can avoid looking at merchandise that will not fit into his plan, and he is much less likely to purchase goods that his customers will not want.

Before he actually makes any purchase, the buyer should have a reasonably complete knowledge of all the merchandise offered in the central market that might meet his needs. There are advantages to the policy of concentrating purchases among a limited number of concerns, however, the buyer cannot be sure he is getting the best values from those concerns unless he has inspected the merchandise that other manufacturers and wholesalers are showing. Thus, when a buyer goes to market, he seldom begins buying at once; his first task is to get a reasonably complete picture of all the goods offered that might be potential purchases.[1] First he should visit the vendors with the better quality goods so that he will know what is best on the market. Then, by visiting the cheaper selling houses next and the medium-priced ones before he does any actual purchasing, he will guard against paying a higher price for anything that may be purchased from one of the vendors handling lower priced goods.

[1] In the case of stores with resident-buyer connections, much preliminary examination and "sorting" of the market offerings may be done by the resident-buying office for the buyer before he gets to the market.

The biggest mistake many buyers make is not seeing all the lines offered or, if that is not possible, as large a number as is possible It is natural for the buyer to confine his visits to a few vendors because visiting a large number of salesrooms is hard, time-consuming work, moreover, he enjoys doing business with a limited number of old firms with which he has had successful dealings. However, the buyer's task is to get the best possible values in the market, and how can he be sure he is accomplishing this unless he knows what the majority of the selling houses are offering? An extreme style or novelty element in merchandise gives the small manufacturers a much better basis for competing with large concerns because the goods cannot be standardized and produced on a large scale The manufacturers of fashion merchandise are largely small-scale producers. Therefore, in the production of such goods, new manufacturers frequently enter the field and create goods with a popular appeal; this makes it necessary for the buyer to be looking continually for desirable new resources If a buyer succeeds in finding new merchandise or new resources that his competitors have not found, he gives his department or store a strong competitive advantage

Another common mistake of the buyer in his market activities is to assume, after he has failed to find anything he wants in two or three visits to a vendor, that it is not worth while to go back to that resource on the next trip to market. The resource that offers nothing outstanding during one season may possibly offer an exceptional value in a later season or year.

The buyer may find it desirable to visit more than one central market. In some lines of goods, there is one outstanding central market and the buyer can concentrate on that market. In the case of other products, there may be a number of cities that are important market centers.

In the past, for many apparel and accessory items and for numerous other articles, such as certain types of toys, glassware, chinaware, and art goods, it was highly desirable for the buyer to visit manufacturing and marketing centers in foreign countries or to obtain other means of contact with such markets. However, at the outbreak of the war between Japan and China in Asia and of the second World War in Europe, the importance of these foreign sources was greatly reduced. One effect has been to increase greatly the designing and manufacture in this

country of merchandise that was formerly purchased almost entirely in foreign countries. In the field of fashion merchandise, American designers and stylists are taking over much of the creative work formerly done in Paris. There is a tendency for New York to take over the world fashion leadership formerly held by Paris Attempts are also being made to build up resources in Mexico and South America, particularly for goods of a handicraft nature, which were formerly bought largely in Europe and Asia.

In recent years, there has been a trend toward the centralization of markets in cities other than New York Chicago, as well as certain other cities, has been increasing in importance as a market for retail-store buyers in comparison with New York Although New York is by far the most important market for retail buyers, many stores that 10 years ago made practically all their purchases in New York are today purchasing a considerable part of their merchandise in Chicago or in market cities other than New York.

4. Resident Buying.—*Resident buying* includes all methods of having a representative in the central market. The plan by which a store provides representation in the central market varies according to the size of the store and the extent of its need for market representation Some of the larger stores of the country maintain their own buying offices in the market centers. Other stores whose size prevents representation through their own office are served by an independent resident-buying organization or by a cooperatively owned resident-buying office Practically all resident-buying offices can be classified into the following four groups

a. The Office Owned and Maintained by a Single Retail Concern The store meets its market-representation requirements by owning and maintaining its own buying office in the central market. Naturally, only large stores can afford to provide resident buying by this plan. This type of resident-buying office is common in the case of the very large department stores, as well as the chain organizations and large mail-order houses.

b. The Cooperatively Owned Office[1]—This type of resident-buying office is financed by a group of stores that it represents Such an office usually serves relatively larger stores and com-

[1] This is often termed an "associated" buying office.

paratively fewer stores than do the other types of buying office, except, of course, the office owned by an individual store. However, the cooperatively owned office usually represents a large "buying power," because of the large volume of the individual stores in the group.

c The Independent Salaried Buying Office.—This type is a private business organized to give store clients market services of various kinds For this service, it charges its store clients a fee or commission. The most common arrangement is for the buying office to contract annually with stores to provide market service in exchange for a stated annual fee or "salary," ordinarily payable in equal monthly installments.

Some firms of resident buyers specialize in restricted fields such as women's ready-to-wear or millinery. Other buying offices cover a much wider field and have a number of experts, each of whom serves a group of allied lines; such firms may serve all the buyers from a department store

d The Independent Commission Buying Office—The feature that distinguishes this type from other independent offices is that it receives its remuneration from the manufacturers with whom it places the retailers' orders rather than from the retailers This type buys for any store and receives a percentage of the sales it makes for the vendors with whom it places the store orders. It usually serves smaller stores whose sales volume does not justify engaging the services of an independent salaried office The services of the commission type are ordinarily much more limited than those of the independent salaried office.[1]

Services of Resident-buying Offices.[2]—One duty of the resident buyer or buying office is to help the store's buyer when he is at the market Because the resident-buying office comes in contact with many market sources every day, it can inform the buyer of those which seem promising; this saves the buyer a great deal of time and opens up sources that he could never have found by himself with his limited acquaintance and time in the

[1] For a detailed discussion of the differences between the services and activities of these two types of independent buying office, see Norris A. Brisco and John W. Wingate, *Buying for Retail Stores*, pp 273–278, Prentice-Hall, Inc., 1937.

[2] The number and specific character of the services provided vary widely among the different types of office.

market. Many new items, particularly in novelty and fashion merchandise, are frequently produced first by manufacturers unknown to the store's buyer It might be some time before he could locate the source of such merchandise if he did not have the help of the resident buyer, and by that time the merchandise would have become more common and therefore less attractive. The resident-buying organization also supplies office facilities for the store's buyer during his visit to the market. Here he may have his correspondence taken care of and receive salespeople.

When the store's buyer is not at the market, the resident buyer will purchase for the store. Thus, through the use of a resident buyer the store can make frequent purchases instead of a few large ones; this helps increase the rate of stock turnover and keeps the merchandise in closer conformity to changing market conditions. Ordinarily, the resident buyer buys only at the store's order and purchases the goods specifically ordered by the store Some stores expect him to notify them of desirable purchases and to send samples. In order to effect savings in transportation, the buying firm may consolidate a number of small shipments into a larger one which can be sent more economically. The resident buyer may also combine orders of several clients in order to get quantity prices.

Many resident-buying organizations at frequent intervals send out to their clients bulletins giving important market information about fashion trends and important developments in the manufacturing field. Some buying offices provide a monthly sales promotional service for stores When this service is offered, it usually has two phases: (1) the development of a complete outline of promotional activities for the store as a whole; (2) advertising "mats" on specific promotions for which the merchandise is bought through the resident office.

As has been shown in the previous discussion, the resident buyer ordinarily does not displace the buyer of the store. The primary purpose of the resident-buying organization is to supplement the work of the buyer. If the buyer understands the purpose of the resident office and the service it can render, he is more likely to make full use of it Some buyers feel that the resident-buying office exists primarily for the purpose of limiting their buying power or to check or spy on their methods. If used intelligently, a central-market representative can save the buyer

much time and money and can prevent many mistakes in the choice of resources, in the selection of merchandise, and in other buying activities. The full benefits of a good resident office can be obtained only by complete cooperation between it and the buyer.[1]

5. Central Buying.—Central-buying offices constitute a means by which a store may be represented in the central market and thus might be considered as a special form of resident buying. However, the relationship between a central-buying office and the stores it serves is essentially different from that commonly understood as resident buying. In the usual resident-buying arrangement, as has previously been described, the resident-buying organization acts simply as an assistant to the store buyer or to the merchant himself. In the central-buying plan, the buyer or buying office in the central market has practically complete charge of all purchases made for certain departments or classifications of departments or for stores in a group of consolidated or associated stores. The local store or department managers or buyers have little or no responsibility for the buying activities. Thus, buying and selling are separated, with the buying done at the central-buying office and the control over selling decentralized in the local stores or departments.

Central buying is a part of the merchandising methods of the typical corporate chain organization. The method is also widely used by leased-department syndicates and by "voluntary" chains[2] The greatest development of central buying has been in the merchandising of staple and semistaple merchandise; however, the method is being used successfully also in many lines of fashion merchandise.

The chief buying advantages claimed to result from central buying are as follows: (1) It tends to keep the stores or departments in closer contact with the market and makes possible a constant flow of new merchandise to the stores. (2) It results in lower prices through the combining of individual store requirements into large orders to obtain quantity discounts. (3) It

[1] For example, the office should be informed as far ahead as is convenient of the buyer's visit to the market and as fully as possible regarding the type of merchandise desired

[2] For a detailed discussion of the various types and the advantages and limitations of central buying, see Brisco and Wingate, *op. cit.*, pp. 305–313.

may provide the store or department with more outstanding merchandise, for the central buyer is able to comb the possible resources more carefully than can a store buyer who can be in the market only a part of the time.[1] (4) It may result in reduced buying costs, particularly in such items as traveling expenses of buyers.[2]

The chief objections or limitations to central buying largely center in (1) certain weaknesses in merchandising operations that may result from the separation of buying and selling and (2) difficulties of adjusting the central buying to the local conditions and buying needs of the different stores or departments. It is argued that buying and selling are so closely related that they should be handled by the same person. It is pointed out that in order to buy properly the buyer may need close contact with the selling process and that a store buyer or merchant is more likely to push the sale of goods he selects than of those sent to him by a central buyer. The separation of buying and selling makes it difficult to fix responsibility and thus may lead to "passing the buck." If results are unsatisfactory, the retailer or department manager blames the central buyer and the central buyer censures the department manager or retailer. Also, the separation of the buying and selling activities may create difficulties in passing on to salespeople buying information that may be essential to good selling. Salespeople need to know the selling points of new merchandise[3]; and in many instances, if not most, this information can best be passed on to the salespeople by the store buyer who has bought the goods and is in the store to promote them.

The other major limitation of central buying is the difficulty of adjusting the central buying to the needs of stores operating in different localities and under varying local conditions. It is argued that the buying needs of each store are often different and that the central buyer cannot have an intimate enough

[1] This possible advantage of central buying is particularly significant in the case of merchandise, such as furs, where a high degree of expert knowledge and close contact with the market are necessary.

[2] In addition to the possible buying advantages resulting from the central-buying method, certain advantages may be obtained from the selling or other viewpoints. For example, with the store or department buyer or manager largely relieved of buying responsibility, he may do a more effective job of directing the selling and operating activities of the department or store.

[3] This is especially true in the case of fashion merchandise.

knowledge of each store's needs to fit his purchases to each store. The significance of this argument obviously varies with the nature of the merchandise. In the case of staple items the buying needs of different stores may vary little, if at all With fashion merchandise, the demand in various parts of the country has become more and more standardized. Although there naturally are local differences, in many instances the situation seems to be that described by one writer in these words: "Alleged differences in local conditions are more in the minds of the store's buyer than in that of the store's customer"[1]

Central buying is gradually increasing in importance as a buying method.[2] The greatest development of central buying has been in chain-store organizations handling convenience goods and the more staple and inexpensive items of shopping goods However, the method has been proved adaptable to many lines of fashion merchandise and is being more widely used Although most of the central buying is still done by corporate chain organizations, leased-department syndicates, or "voluntary" chains (which have many of the characteristics of regular corporate chains), an increasing amount of attention is being given to central buying by independent retailers.[3]

6. Cooperative Buying.—In many instances, retailers place their orders through some form of cooperative-buying organization. These cooperative-buying organizations vary in size and organization all the way from the simple buying club, in which a few merchants in a town consolidate their orders of certain staple lines in order to get discounts, to common ownership of

[1] WINGATE, JOHN W., "Current Trends in Retail Distribution," *Journal of Marketing*, April, 1941, p. 410

[2] Professor John W. Wingate has said, in this connection, "Some day we are likely to look back with surprise at a distribution system built upon thousands of small store buyers shuttling back and forth from the wholesale markets to buy almost identical goods to sell to similar people decentrally located." In Professor Wingate's opinion the chief deterrents to a more rapid growth of central buying are (1) the hesitancy of stores to turn over the vital buying function to an outside organization and (2) "the opposition of established buyers and merchandise managers who see an undermining of their positions" *Ibid.*, p 411.

[3] For example, the Jane Engel organization buys dresses at \$7.95 to \$49.95 for a large group of independent specialty shops and for a number of department stores. *Ibid.*, p. 412.

wholesale organizations and buying offices.[1] There are examples in almost every town of merchants making certain purchases cooperatively. Although cooperative-buying organizations are found among practically all types of retailer, they are particularly common in the grocery and drug fields.

Group Buying.—Group buying is a special type of cooperative buying[2] By this method manufacturers' or wholesalers' samples are gathered together at a central place, usually a resident buyer's office, so that a committee of buyers may select items to purchase for the whole group of stores they represent When a retailer joins a group-buying organization, he usually agrees to take a certain minimum amount of the merchandise to be purchased by the group. The retailer or the store buyer attends the periodic showings of the merchandise samples and registers his opinion on the different models shown A majority or two-thirds vote determines which of the many items shown are to be purchased for the group of stores. The separate orders of the various buyers or merchants are consolidated and placed with the manufacturers whose samples have been selected for purchase by the group.

Group-buying activities frequently include not only the joint selection of the styles or models and the consolidation of the individual orders, but also the joint promotion of the items. For example, national advertising may be used to promote certain of the articles, the names and locations of the stores handling the items advertised being listed

The main advantages of group buying from the viewpoint of the individual merchant or buyer are as follows:

1. The experience and skill of all the buyers are pooled for the benefit of the whole group of stores. If each buyer or merchant does his part, the judgment of the group is usually better than that of any one buyer This results in better selections which should mean greater sales volume and fewer markdowns

[1] *Central buying*, when carried on by independent stores, is a special form of cooperative buying

[2] The term "group buying" is in some instances used loosely to refer to cooperative buying, which includes all methods by which a number of stores or departments in separate stores cooperate in the consolidating of their orders. The better usage of the term is to restrict it to a particular type of cooperative buying and to use "cooperative buying" as the general term

2 There is a considerable saving of the buyer's time in the market. Under the group-buying plan, the market has been searched in advance (usually by the resident buyer), and the showings of many manufacturers or wholesalers can be compared at once simply by examining the samples that have been assembled.

3 Group buying involves buying to a standard. The group sets up a certain standard of quality as a buying objective, whereas a buyer purchasing individually may be much less likely to buy with a set quality in mind

4. Group buying usually results in reductions in the purchase price, because the small orders of individual buyers are consolidated into large ones placed with the various resources. Particularly in group orders for staples, price savings may be possible through placing the orders far enough in advance and in sufficiently large quantities to enable manufacturers to buy their raw material at favorable prices and to effect production economies [1]

5 Another advantage is the ability of such groups to develop their own brands which they may put on this cooperatively purchased merchandise. Some of these brands are quite well known, for example, the Barbara Lee dresses of the Associated Merchandising Corporation

6. An intangible or "by-product" advantage is the education in buying and merchandising that the individual merchants or buyers receive through this association with the buyers of other stores.[2] This opportunity to exchange merchandising knowledge and opinions is an important part of group buying.

The chief objections to group buying from the viewpoint of the individual merchant or buyer are as follows:

1 Many buyers object to this method of purchasing because it seems to lessen their own importance in the market and their freedom of action.

2. Some buyers feel that group buying often results in the purchase of goods that are not suited to local conditions.

3. Group buying is apt to be a cumbersome process and may result in much dissatisfaction on the part of certain of the participating buyers.

[1] Brisco and Wingate, *op. cit.*, p. 301.

[2] *Ibid.*, p. 302.

4. Some small stores feel that the cost is too great for the benefit received.

Many manufacturers have criticized and opposed the development of group buying. Among the objections raised by manufacturers are (1) that it is an attempt to lower prices at their expense, (2) that piracy of designs and styles is made easy because samples are displayed where they can be seen by other manufacturers, and (3) that group buying destroys the manufacturers' intimate contact with the retailers.[1]

Group buying is used in many lines of merchandise, but its chief development has been in the dry-goods and department-store field It may be employed in purchasing either staple or fashion goods. It has been used extensively in the merchandising of women's ready-to-wear, especially women's dresses and coats.[2]

The Buying Process

Buying to a Plan.—The actual buying process involves the selection of specific items of the proper quality and in the correct assortment of styles, colors, and sizes. This merchandise must be purchased at as low a price as is consistent with the quality desired and at the best possible terms of sale. Arrangements must be made regarding delivery dates and the amounts to be delivered at each date, if the purchase is to be delivered in a number of shipments Finally, the order blank must be properly filled out, for this is the contract which binds the two parties.

But how is the buyer to reach sound decisions on the many questions involved in this buying process? What is the correct quality? What sizes should be purchased and in what proportions? What is a satisfactory price? What delivery date should be set? The degree of success of the buyer in answering such questions depends largely upon the extent to which he buys to a carefully prepared plan Such a plan should be primarily the

[1] For a more detailed discussion of the possible disadvantages of group buying to vendors, see Harold A Baker, *Principles of Retail Merchandising*, pp 128–129, McGraw-Hill Book Company, Inc., 1939

[2] One authority in the retailing field has said that group buying is slowly giving way to central buying He attributes this partly to the fact that under central buying the cumbersome machinery of the group-buying method is eliminated and quick buying decisions can be made. See Wingate, *op. cit.*

result of the buyer's analysis of customer demand and his examination of the condition of his present stock. The basic buying decisions that must be made in the preparation of a buying plan have been discussed in the preceding chapter, "Preparing to Place the Order." The careful following of a buying plan in the actual process of buying will save the buyer many mistakes.[1]

Buying to a Price.—The principal function of the buyer in buying for the store is to obtain the goods the customers of the store want at the prices they are willing to pay Thus the buying plan is based, in so far as possible, on the prices at which the goods will sell. Particularly in merchandise for which the store has definite price lines[2] the buyer concentrates his attention on that merchandise which can be marked to sell at those prices Thus he buys backward from a selling price in many lines rather than purchasing an article and then figuring at what price it shall be marked His problem is largely one of obtaining the best quality that can be sold profitably at a given retail price.

The buyer may want to get some dresses to retail at $19 50 or some scarfs to retail at $3. He has a definite goal in mind when he enters the market. He looks for the type and quality of merchandise he has in mind and at a price that will give him a satisfactory markup when priced at the retail figures he knows his customers want.

Buying to a Standard of Quality.—In his selection of merchandise the buyer should have a definite standard of quality in mind[3] Only in this way can he be reasonably sure of buying merchandise that will be satisfactory to his customer Also, he can judge adequately whether or not a cost price is satisfactory only if he knows what he is actually getting at that price.

[1] An editor of a trade paper in the shoe field tells of visiting a shoe retailer who had 3,500 pairs of shoes in his store and did not have an 8C left in a men's shoe. Inasmuch as 8C is the most common size, the situation was an incredible one This illustrates the type of mistake that may arise from buying without a carefully prepared plan Too many buyers purchase what they like rather than what the customer wants as shown by a careful analysis of customer demand. Arthur D Anderson, "Crescendo on the Cash Register," *Boot and Shoe Recorder*, March 22, 1941, p 24

[2] See discussion of price lines in Chap. VIII

[3] This standard will vary, of course, with the store policies regarding type of trade and the type of merchandise Fundamental store policies, as they affect buying, are discussed in Chap VIII.

Some buyers rely in their purchasing upon the reputation of a brand or that of the vendor with whom they are dealing. This method of judging merchandise may be the natural way for a retail customer in her purchasing,[1] but a buyer for a store should have a more expert standard for judging merchandise. The consumer movement has further emphasized the importance of merchandise knowledge The very fact that the consumer insists on having more knowledge makes it increasingly imperative for the buyer and his sales force to have this information The proprietor of a small store who does all the buying for the store will necessarily be limited in his knowledge of any one line of merchandise because of the varied lines he must purchase In a larger store where a buyer purchases a limited line of goods, he can acquire an all-round knowledge of that merchandise which will help him in judging qualities, price, and style

In most lines of merchandise the one-price policy is followed as a general practice in the dealings between the retailer and the customer, but the retailer or buyer frequently finds that in his dealings with vendors a varying price system is used This means that the price he pays is determined by a bargaining process If the buyer knows the value of merchandise apart from the selling house or brand, he has a surer foundation upon which to bargain.

A buyer should be informed concerning the raw materials that go into the merchandise, where these raw materials come from, and what factors affect their prices. He should be familiar with the manufacturing process and the labor conditions in the industry He should be able to judge workmanship, finish, and style qualities. If he knows the relative importance of materials, processing, and style, he will know how each should affect the price he must pay. Finally, he should know the customs of the trade. As a buyer through years of experience acquires information on merchandise and on trade practices, he becomes able to judge merchandise on the basis of his knowledge of its merits rather than by relying on what he is told.

Insuring Quality in Merchandise.—If a store is to perform properly its function as a purchasing agent for the community, it must offer dependable merchandise at a fair price. More and

[1] Especially in the case of new merchandise, the customer may have no other way of making her choice.

more stores are turning to the testing laboratory for merchandise information that will provide a basis for the purchase and sale of dependable goods.

Merchandise testing may be of aid in the buying activities of the store primarily in the following ways:[1] (1) Testing may be used to aid the buyer in determining the relative worth of comparable lines of merchandise offered to him. In the case of certain large retail organizations that set specifications for some merchandise items, testing is used to determine whether or not the goods offered by a vendor meet these specifications. (2) Tests are sometimes used as a check or follow-up on deliveries. A vendor may try to substitute a poorer quality of goods or lower his standards in comparison with the sample he submitted. The laboratory tests will show whether or not the vendor is delivering according to the agreement. (3) Merchandise tests may be used to determine whether or not an article is satisfactory from the standpoint of customer use, which, after all, is the ultimate test. For example, in the case of textiles, merchandise tests may be used to answer such questions as the following: Will this material fade in the sun? Will this color bleed in water or in washing and stain other materials with which it comes in contact? Is the material preshrunk? How will the material wear?

The large mail-order houses were among the first retail establishments to recognize the need for definite testing of their merchandise. In addition, many large chain-store organizations and department stores have established their own testing laboratories. Smaller stores ordinarily cannot afford the expense of a private laboratory but in many cases can make use of the services of commercial laboratories The rapid development of the various methods of testing merchandise offers the retailer a sound basis for building customer confidence in his merchandise and merchandising methods.

Purchasing Job Lots.—A job lot is a miscellaneous assortment of sizes, styles, qualities, and quantities of merchandise offered

[1] The purposes for which merchandise testing is used vary among stores. It may, of course, be used as an aid not only to buying but to other store activities as well. For example, it may be used in connection with the handling of customer complaints about merchandise, as a means of checking on the technical accuracy of the statements in advertisements, and as an aid in the training of salespeople regarding merchandise qualities.

by the vendor at a cut price. The offer may be made for various reasons: The manufacturer or wholesaler may be overstocked, the merchandise may be end-of-the-season goods, the seller may be in need of cash, or another retail store may have failed. The purchasing of job lots of merchandise requires special study and forethought on the part of the store buyer or merchant. He should ask himself three questions about any job lot: (1) Will it fit in with the standards of the store? (2) Will it yield a profit? (3) Will it interfere with the regular stock?

Although a job lot may be a good buy for certain other stores, it may not fit in with the standards of the buyer's own store. If he were to buy it, he might be able to resell it at an immediate profit, but the impression created by the sale of merchandise of this quality might far more than counteract the profit on the lot. A job lot that does not conform to a store's standard is not a bargain at any price. The lower the price of a job lot, the more carefully the buyer should consider it, for the low price indicates the anxiety of the seller to get rid of the merchandise. The job lot may be composed of such poor quality or old-style merchandise that very few of the store's customers would purchase any of the goods.

In order to determine whether the job lot will yield a profit, the buyer should figure on a conservative basis the selling value of the entire lot. Ordinarily, all the items in the entire lot cannot be sold at the same price, or at least it is not desirable to price them in that way. To get the resale price for the entire lot, it is necessary to divide it into groups according to the possible resale value of the various items and then multiply the selling price estimated for the articles in each group by the number of items in that particular group. Then the sum of the total values of the different groups will be the estimated resale price for the job lot as a whole. Unless the buyer follows some such method, he is likely to overestimate the worth of the job assortment, because he is especially attracted by the more desirable items in the lot. These may have been included intentionally to make the job lot seem more desirable.

A buyer must think also of the effect that the sale of job-lot merchandise will have upon the sale of his regular merchandise. If he devotes a part of his buying and promotion efforts to job lots, there will be less money and promotion effort available

for the merchandising of his regular merchandise, for which there is a steady demand. Will customers who might otherwise buy the regular merchandise be led to buy items from this job lot? The buyer must remember that unless a job-lot purchase can be resold quickly it will add to the undesirable and slow-selling merchandise of the department.

Terms of Sale.—After the buyer has chosen the right goods at the best price, he must turn his attention to the terms of sale, especially if he is buying from a manufacturer rather than from a wholesaler. A buyer may keep a card index or other record on which is recorded the terms of sale that have been secured from each vendor. This is called a "term-card file" or "term-discount file" Whenever the buyer is able to secure better terms, he makes a notation of the fact so that in the future he may not permit the manufacturer to revert to the old terms through failure on the part of the store to remember the better terms which had once been secured. This file of information also is very helpful when a change of buyers occurs

The terms of sale include (1) the *dating*, which refers both to the time period within which payment must be made to obtain cash discount and the time at which payment for the goods will become due, and (2) the *discount*, or deduction from the billed or invoiced price allowed under certain circumstances [1] For example, in terms of "2/10, net 30" the 2 refers to a 2 per cent cash discount, the 10 is the dating which indicates the period within which the cash discount can be taken, and the 30 represents the net term period dating. The full amount of the bill must be paid within 30 days,[2] unless it has been discounted according to the terms.

The chief factors that affect the length of the dating are as follows. (1) The length of the marketing period. If, typically, it takes a long period of time for the purchaser to sell the article, the terms are usually longer than for an article that sells quickly. Thus the terms in the jewelry trade are usually for a longer

[1] There are many variations among various retail trades and also among vendors in a given trade in regard both to datings and to discounts. Thus the exact interpretation of many of the terms discussed in the following material depends to a considerable extent upon the practices of the particular trade or vendor.

[2] In ordinary dating, both the 10- and the 30-day periods apply from the date of the invoice.

period than those in the grocery field, where there is a much quicker resale. The perishability of certain products may cause short terms, probably both because of the short marketing period and because of the greater risks involved in the extension of credit in such cases. Fresh meats may have to be paid for the first of each week. (2) Competitive conditions. For example, a widely known manufacturer may have shorter terms than a manufacturer who is trying to break into the market. (3) Business conditions Prosperity tends to shorten the net term period, for it is easier for the purchaser to meet payments. A period of depression tends to cause a lengthening of credit terms. (4) Distance between the vendor and the store and the transportation facilities available. An example of the effect of this factor is found in the use of R O G dating [1]

Ordinary Dating—The most common method of dating is to base the credit period upon the date appearing on the invoice, which is ordinarily the date of shipment of the merchandise as well If the terms are "net 30 days" and the date on the invoice is June 14, this means that the total amount of the bill must be paid by July 14, that is, within 30 days

If the terms read "2/10, net 30" and the date on the invoice is June 14, this means that if the invoice is paid on or before June 24, that is, within 10 days, the purchaser may deduct 2 per cent from the amount of the invoice. If he does not take advantage of the discount, he has until July 14 to pay the full amount If the invoice is not paid by that time, the selling house has the legal right to expect interest, usually at 6 per cent, from that date until the time the bill is paid

Advanced Dating.—In order to induce the purchaser to place his order early the manufacturer may agree to base the credit period on a date later than the date of the invoice. Thus the terms "2/10 as of Sept. 1" appearing on an invoice dated July 25 mean that this merchandise need not be paid for until Sept. 11, until which time 2 per cent may be deducted. The credit period dates from Sept. 1 rather than from July 25.

Seasonal goods are frequently given an advanced dating, called "season dating," which is based on the opening of the purchaser's selling season. Thus, orders for straw hats may be taken during the winter by the manufacturer and shipped before

[1] This is discussed on p. 162.

the season opens But the goods will be given a May 1 dating to correspond to the opening of the selling season, and on this date the credit terms begin to operate. The manufacturer is willing to grant this special credit privilege because it encourages early buying of seasonal goods, enables him to operate his plant in slack seasons, and saves him storage costs. The advantage to the retailer is that he can purchase early but need make payment only after he has started to sell the merchandise.

Extra Dating.—This is another form of deferring the date on which the credit terms begin to apply Thus, "2/10–60 extra" means that 60 days after the date of the invoice the usual terms of 2 per cent 10 days begin to apply. If an invoice dated Dec. 1 bore such terms, it would mean that 10 days after 60 days, or Feb. 9, would be the last day on which the 2 per cent discount could be taken. The net effect of terms of 2/10–60 extra is to provide 70 days within which the cash discount may be taken

E O M.—*End-of-month* dating means that the credit terms date from the end of the month in which the goods were purchased rather than from the date of the invoice This originated through the requests of merchants who were making a great many purchases during a month and who, if they took advantage of their discounts, would have been compelled to send in payments every few days. With all the bills dated from the end of the month, they could make payment on the tenth of the following month (assuming the terms were 2/10 E.O.M) for all the invoices and still receive their regular discount.[1]

When the E O M dating is used, it is customary in many trades to consider all invoices dated after the twenty-fifth of the month as belonging to the following month. Thus in the case of merchandise invoiced on July 26 with terms of 2/10 E.O.M., the store could take the discount any time up to and including Sept. 10.

R.O G.—Stores in the West frequently insist on *receipt-of-goods* terms. Under this dating the credit terms apply from the date of receipt of the goods, rather than from the date of the invoice.

[1] Some vendors permit all invoices dated from the first of the month to the fifteenth to be treated as though they were dated the fifteenth The invoices during the rest of the month are treated as though dated the last day of the

Because it may take longer than 10 days for goods shipped from the East to reach their Western destination, the store in many cases would be forced to make payment before receiving the goods in order to get the discount if the terms were 2/10, net 30. R.O.G. dating gives the store a chance to receive the goods and inspect them before payment is made In case an adjustment is necessary because of shortage or poor-quality merchandise, it is more easily taken care of if payment has not already been made.

Anticipation —Some stores may have ready money and may not need to wait the full length of time that they could wait and still take the cash discount. If the store "anticipates," or pays before the final date when the cash discount may be taken, most vendors will allow it an extra deduction in addition to the regular cash discount to which the store is entitled. This extra deduction represents interest, usually at the rate of 6 per cent a year, for the number of days from the time when payment was made to the time when the invoice had to be paid in order to take the cash discount This practice of granting interest for anticipation is customary primarily in connection with the various types of deferred dating, that is, advanced, extra, E O M , and R O G dating.[1]

To illustrate the figuring of interest for anticipation assume an invoice for $500, dated Mar. 3 with terms of 2/10–90 extra. Payment is made on Apr. 12. The terms of 2/10–90 extra allow a total of 100 days in which to take the cash discount. The payment has been made in 40 days (28 days of March and 12 days of April have expired); thus the store has anticipated by 60 days. The amount to be remitted may be determined by figuring the anticipation allowance on (1) the billed amount or (2) on the net amount after the 2 per cent cash discount has been deducted. The two methods are shown below. Interest at 6 per cent for the 60 days anticipation amounts to 1 per cent (60 days is 1/6 of 360 days[2]; 1/6 of 6 per cent is 1 per cent). By the first method,

[1] In some stores, it is the practice in the case of ordinary dating to deduct interest for the number of days that the net term date is anticipated if payment was not made in time to take the cash discount. For example, if, on an invoice dated Jan. 5 with terms of 2/10, net 30, payment is made on Jan. 20, the cash discount would not be taken but interest for the 15 remaining days of the net term period would be deducted.

[2] It is customary in figuring this anticipatory interest to consider 360 days as a year.

2% cash discount + 1% anticipatory interest = 3%; 3% of \$500 = \$15; \$500 − \$15 = \$485 remittance. By the second method, \$500 − \$10 (cash discount of 2%) = \$490; 1% of \$490 = \$4.90 anticipatory interest; \$490 − \$4 90 = \$485.10.

The first method is more favorable to the store, the second to the vendor. As the calculation of the amount to be paid is actually made by the retailer, he is likely to use the first method unless the vendor refuses to accept payment on that basis.

Various Cash Terms.—When goods are sold for "cash," the purchaser is ordinarily given 10 days in which to receive and inspect the goods before making payment When goods are sent C O.D. (cash on delivery) or D/BL (draft with bill of lading attached), payment must be made before goods are delivered to the store. C B.D (cash before delivery) means that the merchandise is paid for before it is shipped by the seller

Such terms would seldom be given to a store unless it had a very poor credit rating. At times a store might request goods to be sent C.O.D. or C B.D. if it were placing an initial order with a strange house and did not want to wait while a credit investigation was made.

Memorandum and Consignment Buying—Such buying is in a sense a form of advance dating in that the goods are not paid for until they are resold. The distinction between memorandum and consignment buying lies in the location of the ownership of the goods and its attendant risks. In selling on consignment, the title to the goods remains with the seller, whereas, in a memorandum sale, it passes to the buyer. In either case, the unsold portion of the goods may be returned to the seller without payment.

Such a practice permits a store to sell goods before making payment and without assuming the risks of ownership. When purchasing large quantities for a sale, a store may buy in this way so that if the anticipated amount is not sold it can be returned. The chief disadvantages are as follows: (1) If purchased in the usual manner, such merchandise ordinarily could be obtained at a lower price, for the seller must be compensated for the risks he assumes in such selling. (2) Trouble may arise between the store and the seller over damaged or returned goods and over the question as to whether the store has put sufficient sales effort

behind the goods. (3) It is easy to overbuy and so load up the store with slow-selling merchandise. (4) Especially in the case of consignment buying, the merchant sacrifices much of the control over his own business and stock and may be under a handicap in meeting the competition of rivals who own the merchandise on their shelves.

Discounts.—There are three major forms of discount that may be of significance to the buyer in arranging the terms on his purchase. These are: (1) trade discounts; (2) quantity discounts; (3) cash discounts.

Trade Discounts.—A trade discount is a reduction, or discount, from the list price given to all buyers of a certain class or category. It is sometimes called a "functional" discount, for it presumably is given to a particular class of buyers to cover the cost of performing their part, or function, in the distributive process. For example, a manufacturer may give a retailer one discount from the list price, which is often the suggested retail price, and give a larger discount from the list price to a wholesaler.

A trade discount may be stated as one discount, as, for example, "less 40 per cent," or it may be given as a chain of discounts as "less 30 per cent, 10 per cent, 5 per cent." In the case of the chain of discounts, the buyer finds the net amount to be paid by taking 30 per cent from the billed list price, 10 per cent from the remaining balance, and 5 per cent from the second remaining balance. Thus a trade discount of 30 per cent, less 10 per cent, less 5 per cent on an invoice of $100 would mean a net amount to be paid of $59.85. The amount to be paid also may be figured by the "on" percentage method. An "on" percentage is a percentage figure that can be applied to the list price to obtain the actual cost.[1] For example, a vendor may give a trade discount of less 30 per cent, 15 per cent, 5 per cent. The "on" percentage may be figured as follows:

$$\begin{aligned} 100\,\% - 30\,\% &= 70\,\% \\ 100\,\% - 15\,\% &= 85\,\% \\ 100\,\% - 5\,\% &= 95\,\% \end{aligned}$$

$0.70 \times 0.85 \times 0.95 = 0.56525$, or 56.525 per cent, the "on" percentage. If the list price is $300, the actual cost is 56.525

[1] Brisco and Wingate, *op. cit.*, p. 389.

per cent of that, or $169.58. The "on" percentage simplifies calculation if the store handles many invoices bearing the same trade discounts.

In some cases, discounts off of list price are used to change prices without changing quoted or catalogue prices For a vendor, such as a hardware wholesaler, who handles thousands of items, it is very expensive to put out a catalogue. Thus, when prices change, instead of sending out a new catalogue, the vendor may simply change the discount off of list price. If prices are higher, he can lower the discount; if prices are lower, he can pass this change on to his customers by increasing the discount.[1] Such forms of discount are not strictly trade discounts which are, as already pointed out, in the nature of functional discounts given to specific classes of trade, however, the discounts given to adjust catalogue prices are similar in form and are handled as trade discounts in determining the actual cost of the goods.[2]

Quantity Discounts.—A quantity discount is a reduction in price given in return for the purchase of a given amount of merchandise. This may be given either upon (1) the amount purchased in a single order or upon (2) the total quantity purchased during a given period. The second form of quantity discount is sometimes termed a "patronage discount."[3] Under the Robinson-Patman Act, quantity discounts are limited to the actual saving that the quantity purchase makes possible to the seller.[4]

The giving of some free goods with an individual order or in return for the buyer's reaching a certain total purchase quantity

[1] If the discount is given in the form of a chain of discounts, he either rescinds one of the discounts to raise the price or adds another discount to lower the price.

[2] These discounts have been termed *arbitrary discounts* by some writers Such discounts may also be used by a vendor as a means of favoring certain individual customers within a trading group, a practice that is illegal under the Robinson-Patman Act Malcolm P McNair, Charles I Gragg, and Stanley F Teele, *Problems in Retailing*, p. 181, McGraw-Hill Book Company, Inc., 1937.

[3] It may also be called a "deferred," "period," or "cumulative quantity discount."

[4] The Robinson-Patman Act applies, of course, only if interstate trade is involved.

over a period is a special form of quantity discount, for the effect is to lower the cost per unit of the total merchandise obtained. The offer of free goods may take the form of an extra amount given free if a certain quantity is ordered, as one dozen bars of soap free with every gross ordered In other cases, merchandise of a different type than that ordered but which may be readily salable in the store is given free if a particular amount or combination of merchandise is ordered. The buyer must be careful not to overload his department or store through a desire to take advantage of free deals.

Cash Discounts.—A cash discount is a percentage deducted from the billed price as a reward for paying the bill within a stipulated time. The chief purpose of the discount is to encourage early payment. Such a discount can be taken by anyone able to pay, regardless of the quantity of his purchase. Where the terms 2/10, net 30 have been given, the 2 per cent discount allowed if the bill is paid within 10 days is the cash discount.

The taking of cash discounts is highly desirable, for it is an important source of profit. Some retailers even go so far as to say that it gives them their only profit, for their expenses and incomes otherwise just about balance each other. If a store does not have ready money, it may profitably borrow at the bank in order to take advantage of a cash discount. This is shown by the following table, which shows what a few common cash discounts amount to when figured on a yearly basis.[1]

Terms	Annual Rate of Interest, Per Cent
1/10, net 30	18
2/10, net 30	36
2/10, net 60	14 4
2/30, net 60	24

If a store makes a practice of discounting its invoices, it not only adds to the earnings of the business but also creates a favorable impression on the houses with which it deals. Whether or not a merchant makes a habit of taking cash discounts is often a

[1] These are figured on the basis of 360 days in a year. To illustrate the method, in the case of terms of 1/10, net 30 the 1 per cent is received for paying 20 days early (difference between cash discount dating and net term dating). There are 18 twenty-day periods in the year, thus the annual rate of interest is 18 per cent (18 times 1 per cent).

good index of his efficiency of operation. The regular taking of cash discounts presumably indicates both a sound financial position and a recognition of the financial significance of cash discounts.

When cash discounts as excessively high as 7 or 8 per cent are granted, they may be cash discounts in name only. Such a percentage would be an exorbitant penalty for the buyer to pay for late payment or from the standpoint of the vendor would be an exorbitant premium to pay for the early use of his money. It may be argued that these high discounts are in reality largely trade discounts [1] Where, through custom and competitive conditions, such high discounts are common, both the purchaser and the seller think of the discounted figure as the real cost price instead of the price before the discount has been taken. Thus, high discounts make a strict enforcement of terms impossible.

In order to force buyers to work for large discounts, some stores practice "loading"[2] They set a certain discount which the buyer must get on all purchases. If he fails to get this required discount, the store bills the goods to his department at the cost price plus the difference between the discount which the buyer got and that which he was supposed to get. If he is required to get a discount of 4 per cent on a $200 order and receives only the usual 2 per cent, the merchandise is charged to the department by the store's controller at the loaded figure of $204 17. This is calculated as follows: 200 less 2% = $196 which is 96 per cent of the price at which the goods are to be charged to the department. If $196 is 96 per cent, then 100 per cent is $204 17. An easier, though less accurate, method of calculation is to add to the billed cost of the goods the difference between the required discount and the actual discount, giving, in the above case, a loaded price of $204.

Other stores may give the buyer a personal bonus if he attains a certain percentage of discounts on his purchases. Either plan puts a strong emphasis on seeking large discounts. At times the seller will raise the price of his merchandise so that he can give the buyer the larger discount and still receive a certain cash price.

[1] For a further discussion of this point, see Brisco and Wingate, *op. cit.*, p 399

[2] See *ibid*, pp. 402–405, for a more detailed discussion of "loading."

Filling Out the Purchase Form.—Because an order to purchase goods is a contract that will bind the two parties, it should be made out with care. A formal order decreases the chance for misunderstandings, therefore, stores often require that all verbal or telegraphic orders shall be confirmed on the store's regular order blanks

These order blanks when filled out should show: (1) the name and address of the store and also the department number, if the order is from a large store; (2) specific date of delivery (important for fashion merchandise, especially where the goods may not be of value to the store unless received at a certain time); (3) a careful description of the merchandise to prevent later misunderstandings; (4) the method of shipment, whether by freight, express, or mail, and, if by freight, over what road if one gives better service than another, (5) a statement of shipping terms (if the goods are sold f.o.b. point of shipment the store pays the freight, and if they are sold f.o b point of destination the seller pays the freight)[1], (6) any special instruction that the store may desire to give.

The order will be signed by the buyer and in some large stores countersigned by the merchandise manager. Other large stores expect the merchandise manager to countersign only those orders which total over a certain amount. A smaller store will make out at least two copies of the order. One goes to the vendor, the other is kept by the store. In larger stores, it may be necessary to make additional copies to go to various executives such as the merchandise manager, division merchandise managers, or buyers

[1] For a further discussion of shipping terms, see p 173

CHAPTER X

RECEIVING THE MERCHANDISE

All stores must set up methods for handling incoming merchandise and for preparing it for sale to customers. The basic activities involved in this receiving process are fundamentally the same in all types and sizes of store. The incoming goods must be received physically, checked to see that the proper items and quantities have been received, marked, and put in stock The specific form of organization for accomplishing these operations, however, varies among stores of different types and sizes

In the smaller stores the receiving process is ordinarily an integral part of the buying activity. If the merchant himself is doing the buying for the store, he will be responsible for the proper receiving of the merchandise that he has purchased. If there is some departmentalization the department heads or buyers may provide for the handling of the goods for their respective departments.

As stores grow in size, more specialized handling of the incoming merchandise becomes necessary In the larger stores the receiving activity is usually centralized under one individual, who is responsible for the receiving organization necessary to handle properly all goods coming into the store.[1] This person is commonly known as the "receiving manager" but in some stores has the title of "traffic manager."[2]

Traffic Management.—In all stores, there is a need for the exercise of some traffic knowledge. The availability and use of

[1] For a discussion of the place of the receiving department in the large store organization, see O. Preston Robinson and Norris B. Brisco, *Retail Store Organization and Management*, p. 285, Prentice-Hall, Inc., 1938.

[2] In some stores the traffic manager has charge not only of the incoming merchandise, including returns to vendors, but of outgoing goods as well Thus, he would supervise not only the receiving and marking of merchandise, but also the storing, warehousing, and delivery operations For a further discussion of the traffic manager's function, see "The Traffic and Receiving Manager," *Retail Executive*, Nov. 29, 1939, p. 6.

adequate traffic information bring savings in transportation costs and lessen the shipping time in the receiving of merchandise For example, one store through the use of a furniture freight guide reduced freight costs about one-third and lessened the shipping time required for the receipt of the goods Some of the larger stores have this specialized work of traffic management[1] centered in an individual known as the "traffic clerk."[2]

The chief duties of the traffic clerk include: (1) routing the merchandise; (2) auditing freight bills; (3) tracing shipments; (4) filing claims, (5) educating or instructing vendors. If a store does not have a traffic clerk, these duties are performed by others in the store, by outside help, or not at all. Frequently the buyer attempts to route the shipment, the receiving manager may try to trace a shipment, and the controller may file claims Some stores that do not have traffic clerks have their freight and express bills audited by an outside firm that specializes in such work.

1 *Routing the Merchandise* —In the routing of the merchandise, the traffic clerk first must decide the type of transportation to be used For some fashion or seasonal goods, it may be necessary to use the form of transportation that will get them into the store at the earliest date possible Thus the extra expense of shipment by express or parcel post may be warranted. The volume of goods transported by air express is rapidly increasing. Fashion merchandise is most suitable for this type of shipment, because of the importance of speed in getting such merchandise to the points of sale. In addition to the element of speed, there is a distinct advantage, especially with certain apparel items, in having the merchandise arrive with as little crushing as possible, ready for display at once In the shipment of goods that do not require special speed in delivery, some slower and less expensive

[1] The term "traffic management" is being used here not in the very broad sense of the supervision of the handling of all incoming merchandise (and, in some cases, outgoing goods as well) but rather in the narrow sense of the handling of transportation problems in connection with incoming merchandise

[2] Sometimes this person is called "traffic manager"; this usage, however, may lead to confusion, for this title is frequently used to refer to an individual of much broador responsibility, the head of the receiving room or an executive who supervises all receiving, marking, storing, warehousing, and, in some instances, delivery

method of shipment might be specified, for example, railroad freight shipment or shipment by water

The bulk of the shipments will be routed by freight. It may be desirable for the shipment to come over one railroad in preference to others This railroad may move the merchandise more quickly and more safely. Past experience may show that it is more prompt in allowing traffic claims. Formerly the location of the railroad's freight station in relation to the store was considered in the choice of a railroad, but the development of store-door delivery[1] has decreased the importance of this consideration. When an order is placed, the traffic clerk may place on it the instructions as to method and route of shipment. If the vendor fails to follow these instructions and a higher transportation charge results, the store is justified in deducting the difference when remitting to the vendor.

2. *Auditing Freight Bills.*—A second responsibility of the traffic clerk is that of auditing the freight bills of the store.[2] Overcharges are often made through an incorrect freight classification of the merchandise, through incorrect rates, or through incorrect calculations on the freight bill. Stores which audit their freight bills find that the refunds pay the cost of the audit and leave a substantial balance besides A store will not audit each freight bill as it comes in but periodically will check over all bills received since the last audit

3. *Tracing Shipments*—If a shipment is not received within a reasonable time after it should arrive, the buyer may ask the traffic clerk to trace this shipment. A record kept of past receipts will show how long it normally takes to receive the merchandise after the date of shipment as shown on the vendor's invoice. It is wise for the traffic clerk to keep a regular record of delivery failures and to let the vendors know he keeps this. The actual attempt to follow or locate a shipment that has gone astray ordinarily is made by the transportation company, upon the request of the traffic clerk.

4 *Filing Claims.*—A store frequently receives merchandise that has been damaged while in transit. Before entering a claim against the carrier, the traffic clerk should make certain

[1] Delivery of goods by the railroad at the store, rather than at the terminal.

[2] Some stores have their freight bills checked by an outside concern

the merchandise was in good condition when shipped. If the outside of the package shows evidence of damage, the store should accept the shipment only after calling the carrier's attention to the condition of the container and the possibility of damage to the merchandise that it contains. If the store has the carrier make a notation on the freight bill of the damaged condition of the shipment, it accepts these containers subject to the right to file a claim later for such damage as is discovered. Damage claims will be filed against the common carrier that delivers the merchandise to the store; for it is responsible to the store, even though the shipment also has passed over the lines of other carriers.

Many claims arise out of concealed damages or losses. The containers appear to be in good condition when received from the transportation company; but when they are opened, either there is a shortage of merchandise or some damage to the merchandise is discovered If this appears to be the fault of the carrier, the transportation company should be notified at once so that it can inspect the shipment and see for itself the condition of the merchandise If the loss or shortage is due to a fault of the vendor, the claim then is not against the carrier but against the vendor. The traffic clerk should make a careful investigation to determine which party is responsible for the loss or damage, so that the claim can be sent to the proper party. This is essential; for the store desires the good will of both the vendor and the carrier, and this is dependent upon their belief in the fairness of the store's claims as presented by the traffic clerk. As a store develops a reputation for fairness in its dealings, it will find the carriers more willing to take its word in the statements made in claims. It is worth while to strive for such cooperation

In supporting its damage claim a store must file a number of documents. These include a certified copy of the invoice, the paid freight bill, the original bill of lading, and affidavits from the shipping house and the store. Some carriers require more affidavits than others. If the claims are for concealed loss, there must also be included a concealed-loss form from both the shipper and the store.

In order to reduce the number of claims that must be filed against carriers, a store may shift that burden to the vendor by means of the shipping terms on the original order. When goods

are shipped "f.o.b. destination," the transportation company is acting for the vendor, who is paying the freight and who must file any damage claims. If the goods are shipped "f.o.b. shipping point," the store pays the freight and must file the damage claims By making the terms "f.o.b. destination, charges reversed," the shipper pays the freight but is reimbursed by the store In this case, however, the transportation company is acting for the shipper who must therefore file any claims for damages

Some stores take out transit insurance, for this facilitates the collection of damages. The insurance company will make payment promptly in case of loss, but it might be some time before the carrier would approve the claim.[1] The rate charged a store for such insurance will depend on that store's past record as to the number and amount of claims. Express shipments under $50 in value are insured by the express company without extra charge. Parcel-post shipments may be insured by the government at a reasonable charge.

Increasing cooperation between buyers and producers is helping to reduce transportation claims arising from faulty construction and packing. Losses on vacuum bottles, for example, have been greatly reduced since manufacturers began constructing the fillers with heavier glass. Savings have been realized also on improved methods of shipping furniture and porcelain Mail-order houses have taken the lead in this field by insisting that manufacturers construct merchandise which will withstand normal traffic hazards. This campaign to reduce shipping damage is gaining momentum and should prove of value to vendors, warehousemen, carriers, and buyers alike by eliminating, instead of shifting, the cost of damages in transit.

5. *Instructing the Vendors.*—If shipments are properly marked by the vendors, such directions facilitate their receipt by the store. The written order for the merchandise will contain shipping instructions, but some vendors will not take the trouble to follow these. As a result the traffic clerk must call this oversight to their attention and try to impress on them the need for complying with the store's shipping instructions.

[1] "Claims or damages on incoming goods are settled by insurance companies in thirty days on the basis of invoice price." John W. Wingate, *Manual of Retail Terms*, p 473, Prentice-Hall, Inc , 1931.

The name of the vendor and the store's department number should be on each container. This makes it easier to identify the shipment and the invoice which the store has for that merchandise. The greater the number of shipments a store receives, the more essential it is to have them properly marked for identification It is often the case that several departments handle similar goods, so that at times, even after an unidentified shipment has been unpacked, it is necessary to call the buyers of these departments to find out who ordered the merchandise

The invoice should also contain the store's department number. This makes it easy to associate the shipment and invoice with the original order A store may also instruct a vendor as to the way in which invoices are to be sent. For example, a store on the Pacific coast may specify in orders to Eastern vendors that invoices be sent by air mail.

RECEIVING PROCEDURE

Receiving Room.—At one time, stores had a practice of receiving their merchandise upon the selling floor and placing it directly into stock. It was thought that a saving was made by having the sales force do the work of opening, checking, and marking the merchandise However, this method naturally caused much confusion and untidiness on the selling floor. In addition, this practice made it practically impossible to exercise any adequate control over the incoming merchandise or the invoices. When the department received the merchandise on the selling floor, it was seldom accurately checked; for the salespeople not only did not care for that type of work, but they were anxious to get the merchandise out where it could be sold. They felt it was their job to sell merchandise rather than to count it

Also, the buyer frequently was careless of the invoice and did not get it to the store's treasurer or controller in time to take advantage of the cash discount. If there were discrepancies between the invoice and the goods actually received, these often were not discovered or no record of the discrepancy was made on the invoice; as a result the full amount called for by the invoice was paid.

As stores have come to recognize the necessity of adequate control over incoming goods and the invoices, it is only natural

that they have seen the need for a different method of receiving merchandise. Every store, regardless of size, should have some systematized method by which the merchandise and invoices are properly checked and controlled, from the time and point at which the merchandise is purchased until the goods are put on sale on the counter and the invoice is paid. In the small store such control does not necessitate an elaborate organizational setup, but it does require that the merchant plan and carry out orderly handling of the merchandise and invoices. There is the need for some systematized routine, whether carried out by the merchant or delegated to an employee, that will provide sufficient control over the merchandise and invoices without at the same time causing too much delay in getting goods to the selling floor.

A store can more easily exercise control over the incoming merchandise and invoices by having a separate receiving and marking room, where all merchandise may be received, checked, and marked in an orderly manner. This receiving room, or department, ordinarily is located where the space is not valuable for selling In larger stores, it is usually on one of the upper floors, in the smaller store, it is more often located in the basement.[1] This space should be separated from the rest of the store to prevent theft. If there is only one door for the use of the employees, it is easier to keep out unauthorized persons and to see that others do not remove merchandise before it is ready to leave the receiving room.

All stores, especially those dealing in fashion merchandise, should be concerned with the problem of shortening the time lag between ordering goods and actually selling those goods on the floor of the store The possibility of depreciation on ordered merchandise increases with the delay in shipping and receiving and it thus is highly desirable for the store to eliminate the bottlenecks in its ordering and receiving procedure. Not only does the problem require a speed-up in the unpacking, checking, marking, and inspecting routine within the store, but it also demands that

[1] In the small store that occupies only the first floor of a building, a portion of the rear of the store is ordinarily partly or completely walled off and used for receiving and storing of goods and other nonselling activities In any particular store the location and layout of the receiving space are determined to a large extent by the physical structure of the building in which the store is operating.

the producer be impressed with the need for early shipping and that the carrier be urged to lessen its handling time.

Another phase of the process of handling incoming merchandise which deserves attention is the return of goods to the shipper. The speeding up of returns is nearly as important as the reverse process; yet in many stores as much as twice the time is required to return as to receive merchandise

Receiving the Merchandise.—The work of handling incoming goods can be divided into five steps or operations (1) the examination of the containers and signing of the receipt of the deliveryman, (2) recording the shipment on the receiving record; (3) checking the merchandise; (4) marking the merchandise, (5) distributing the goods to selling floors or reserve stock rooms of the selling departments.

1. *Examination of Containers and Signing of Receipt of Deliveryman.*—When the shipment is delivered at the receiving point or platform, the containers should be examined carefully to see if they show any sign of damage. If there is an indication of the container's being broken or damaged, there is a possibility that the merchandise will be soiled or damaged. A notation of this condition should be put on the deliverman's receipt when it is signed, for this facilitates the filing of a claim if the goods afterward are found to be damaged.[1] The number of packages received and the number shown on the driver's receipt should be compared in order to make certain that all packages called for on that receipt are actually received by the store.

2. *Recording Shipment on Receiving Record*—The second step in the handling of incoming merchandise is the recording of the shipment on the receiving record. This record may be either in the form of a large sheet with columns for the different information desired, on which a number of shipments may be recorded, or in the form of separate slips, one for each shipment The first type is the more common.

The type of information provided for on the receiving record varies among stores. Such factors as the kind of shipment and a store's system of invoice procedure affect the contents of the record.[2] When the shipment is entered on the receiving record,

[1] See discussion in this chapter on "Filing Claims"

[2] In large stores, separate receiving records are kept on each classification of shipments, for example, one receiving record for freight shipments (includ-

it is given a serial receiving number. This number also is marked on the shipment and serves as a future means of identification. In addition to the receiving number, the receiving record generally has space for recording the date of receipt, the number and kind of packages in the shipment, the name and address of the shipper, the number or name of the selling department for which the shipment is intended, the freight- or express-bill number, the weight, the transportation charges, the name of the carrier, and the date, amount, and register number of the invoice. If the invoice is not with the shipment, the invoice columns may have to be filled in afterwards.[1] Some stores may want additional information on their receiving records, and others may require only a part of that given above.

Every store should maintain some form of receiving record, for it provides a complete account of all merchandise shipments received. Should any disagreement arise as to whether or not a certain shipment has been received by the store, the receiving record will provide the necessary information, such as the date of receipt and number of pieces in the shipment. The receiving record guards against payment of an invoice before the merchandise has arrived in the store, provided, of course, that the invoices are checked with the receiving record before they are paid.

3. *Checking the Merchandise*—After the shipment has been entered on the receiving record, it is sent to the receiving room where the goods are unpacked and checked. The majority of stores use the direct-check system of checking the merchandise. By this method the shipments are held in the receiving room until the invoices arrive so that the merchandise can be checked directly against the invoice sent by the vendor. As the merchandise is counted, the quantity is compared with the amount appearing on the invoice. If there is a discrepancy, the count can be verified. If there is a shortage, a claim will be made out against either the vendor or the carrier, whichever seems to be to blame. If there is an excess of merchandise, the method of

---

ing rail and water), one for express shipments, another for parcel post, and another for local shipments. In smaller stores, one record for all shipments is sufficient. *Manual on Receiving Department Operations*, p. 55, Traffic Group, National Retail Dry Goods Association, 1938.

[1] As a rule, invoices do not accompany out-of-town shipments.

handling it will depend on whether the buyer wishes to keep it or return it.

When the above method of direct checking is used, considerable savings may be made in the checking operations by requiring that certain information appear on the invoices received from the vendor. For example, in one large store, by requiring that size, style, and color be entered on the invoice of all goods delivered at the store, three people were eliminated in the receiving and marking operations. The time required in getting merchandise to the selling floor also was reduced.

A second method of checking used by some stores is the blind-check system. By this method the merchandise checker does not receive the invoice, which is held in the invoice office The checker either writes out the contents of the shipment on a blank form or records the quantities on a copy of the invoice[1] which gives a description of the merchandise but not the amounts The blind-check form filled in by the checker is turned in to the invoice office, where the quantities recorded by the checker are checked with the amounts shown on the invoice.

The advantages claimed for the blind-check system are as follows: (1) It provides a more accurate count. Because the checker does not know what amount to look for, he has to make a careful count of everything. For example, suppose there were 50 articles of a particular type according to the invoice, but only 48 were received. If the checker had the invoice before him when he counted 48, there would always be the temptation to consider the invoice correct and to check the invoice amount rather than to recount the articles. This argument for the blind-check system is weakened, however, by the fact that a large proportion of the shipments received by a store contain a packing slip on which quantities are shown.[2] (2) It keeps a knowledge of the cost price of the merchandise from the checker. The value of this is doubtful, as many stores feel that there is no harm in letting the checkers have this information. (3) It insures good physical control of the invoices. It is unnecessary for the invoice to leave the invoice office until it goes to the accounts payable office, and so it is less likely to be lost or temporarily misplaced. (4) It

[1] If the invoice has not been received, the descriptive material to be used by the checker can be taken from a copy of the buyer's order

[2] *Manual on Receiving Department Operations*, op cit, p. 61

makes possible the checking of merchandise before the invoices have arrived. This is of particular importance if shipments needed immediately on the selling floor arrive in advance of the invoices.

One objection to the blind-check system is that it prevents a loss or shortage from being shown at once. A loss or shortage does not show up until the checker's list is compared with the invoice in the invoice office. By that time, very often the shipping containers have been disposed of and the merchandise has been marked and sent to the selling floor; therefore, there is little or no opportunity of rechecking the shipment to determine whether the checker or the vendor is correct or whether the store has a claim against the transportation company [1] A second objection to the blind-check method is that it is apt to be slower and more expensive than the direct check against the invoice This is largely due to the fact that additional operations are introduced in the checking procedure—that of making up the copy of the invoice (without quantities shown) or other form for the checker to use and the comparison of the checker's listing with the invoice in the invoice office. Comparatively few stores use the blind-check system as the main method of checking merchandise. Apparently the majority of stores feel that a well-supervised direct check gives adequate control over the checking of merchandise and the handling of invoices with greater speed and economy of operation than could be obtained under the blind-check method

Some stores use a combination of the above systems of checking incoming merchandise If the invoice has been received prior to the receipt of the goods or if it accompanies the shipment, the shipment is checked as soon as received directly against the invoice. If the invoice is not on hand, a blind check is made. Even in those stores which may be said to use the direct-check method, the use of the blind-check is essential in the handling of shipments which are needed immediately on the selling floor but for which the invoices have not arrived.[2]

[1] *Ibid*, p 61.

[2] The blind-check method is widely used in the checking of ready-to-wear (except in the case of stores in New York City where vendors deliver the invoices with shipments) "This is done, first, because of the speed with which it must be handled; secondly, because of the detailed information

In the checking methods described, the checkers are responsible for the correctness of the quantity of each item in the shipment but should not be held responsible for checking the quality. The examination of the quality of the merchandise is a function of the merchandise division rather than of the receiving department. Ordinarily the buyer or his assistant inspects the quality of the goods after they have been checked, but before they are marked. Some large stores have special inspectors who are responsible for inspection and examination of quality Naturally the importance of quality inspection varies among stores. For example, in a store handling largely staple articles, in which most of the incoming goods are reorders, quality inspection may be relatively unimportant. On the other hand, in a specialty store handling women's ready-to-wear, quality inspection may be so important that it should be considered separately as one of the fundamental operations in the receiving and handling of incoming merchandise

4 *Marking the Merchandise.*—After the merchandise has been checked, it is ready for marking. There are three different methods or arrangements by which the merchandise may move from the checking to the marking process: (*a*) the stationary checking-marking table method; (*b*) the portable table method, (*c*) the bin method [1]

When the stationary checking-marking table system is used, both the checking and the marking operations are performed on the same table This method reduces the movement and handling of goods to a minimum. Also, it usually requires less space than do the other systems.[2] The chief objection is that buyers who are present to inspect the merchandise ready for marking have access also to merchandise which has not been checked and may remove some of this to the selling floor before it has been counted.

In the portable table system the checking tables are fitted with wheels so that after the merchandise is checked the tables

---

required by unit control records and for marking tickets, such as size and color, which are seldom shown on manufacturer's invoice." *Ibid*, p 59.

[1] For a detailed treatment of the layout of the checking and marking area, see *ibid*, pp 42–45

[2] The smaller store, especially, is likely to check and mark the goods on the same table.

can be moved into a separate marking room for the marking operations. There is a distinct division between the checking and marking sections or rooms, and only the checkers are permitted access to the checking section. The portable table method eliminates the rehandling of the merchandise necessary in the bin system and yet prevents the buyers from having access to the unchecked merchandise as in the checking-marking table system. The chief objections to this method are that tables tend to become bunched and that merchandise which is needed may be delayed temporarily in the checking room because a table load has not been acquired.

In the bin system the checking and marking sections are separated by a line of trays, or bins, which are open at each end. As the merchandise is checked, it is passed through the bins into the marking room, or section. This system allows a direct flow of merchandise and also keeps the buyers and markers out of the checking section Its chief disadvantage is the necessary extra handling of the goods. Also, in some instances, the contents of a number of shipments become mixed in the bins, and their rearrangement delays the marking process.

The problem of getting merchandise from the checker to the marker often is not so simple and certain a matter as the previous discussion may have suggested. Unless the movement of goods from checking to marking is carefully planned, shipments may be confused, parts of shipments misplaced, and other disturbances caused in the routine of the checking and marking sections. In connection with the use of any one of the three methods, or systems, discussed, it is important that the layout of the checking and marking sections be arranged to facilitate as much as possible (considering, of course, the need for accurate control) the free and rapid passage of the merchandise to the reserve stock rooms or the selling floor.

Importance of Proper Marking.—Proper marking of merchandise is an aid in the selling of goods and is essential in the accounting and control activities of the store. When a salesperson is not immediately available, the price and other information properly placed on an article frequently serve as an effective "silent salesman." Legible marking of the goods also is of help to the salesman, for he cannot be expected ordinarily to know the exact price of every article in his department; thus, he is less apt to

make errors that result in goods being sold at incorrect prices. Also, with the price appearing plainly on the ticket the salesperson may not have to mention price and thus can spend his time on the qualities of the merchandise itself

The accurate and legible marking of goods is also important from the standpoint of the accounting and control activities of the store For example, inaccurate and illegible marking of merchandise will lead to errors when physical inventories are taken. Or if the store is obtaining information from the stubs of price tickets to determine what price lines, sizes, colors, etc , are selling, it is essential that the marking of the price ticket be accurate, complete, and legible if the data obtained from the stubs are to be usable

The extent to which goods are individually marked and the amount of information to be carried on the price ticket vary considerably among different kinds and sizes of store. In some stores and in certain departments of large stores, each article will carry some form of price marking. On the other hand, there are certain small articles that when assembled in the same container or compartment of a display case or counter (as in a variety store) are sufficiently marked by the use of one price ticket. In some instances, merchandise is *bulk-marked* at the time it is received; that is, the price is marked only on the large packages, and the individual articles are marked later when sent to the selling floor.[1]

A price ticket should carry the information necessary for the customer and the store but no more than is absolutely necessary. This is to save time and cost in making out the ticket. Also, the less that appears on the ticket, the easier it is for the customers and store employees to grasp that information. Some tickets show only the retail price; others contain additional information for store-record purposes or give special information to the purchasers.

Source of Price Information.—When the goods have been checked and are ready to be marked, the markers must be supplied with the information to be placed on the tickets. This may be done by giving the marker the invoice with the retail

[1] This method, which is also termed "deferred marking," may save considerable re-marking of individual items in the case of merchandise subject to frequent retail-price changes

price indicated opposite each item. If the invoice is retained in the invoice office, a copy of it (with the retail prices indicated) may be given to the marker. In some instances the buyer may simply mark the price on a sample of each lot of merchandise to be marked.

Cost Codes.—The larger stores that use the retail method of inventory may not enter on the price ticket the cost of the merchandise, for it is not necessary according to that method of figuring inventory.[1] However, in the many stores operating on the cost method of inventory the cost price must be shown on the price ticket, for it is necessary in the taking of an inventory. The stores that show the cost price on the ticket write the cost price in code in order to keep this information from their customers and salespeople.

One method of writing the cost in code is to use a word or phrase of 10 letters, no one of which is repeated The letters are each given a number, usually starting from the left. An example would be

F	A	N	C	Y	B	I	R	D	S
1	2	3	4	5	6	7	8	9	0

The cost of $1.30 would be written FNS. Where a number is repeated, some other letter such as X may be written to show the repetition; thus, $1 15 would be written FXY.

Another method is to use a price book, each page being numbered and each line on a page having a number Thus the cost code of 47–20 might mean the price that appears on line 20 of page 47 of the cost-code book.

Another method of making a cost code is to change the actual cost by subtraction, addition, multiplication, or division, often placing an additional number as a prefix before the code. For example, a code might be used in which the first figure is to be subtracted from each of the succeeding ones to get the cost price; thus, 2352 would indicate a cost price of $1.30.

Some stores write the cost price by using in place of the numerals the first two letters of the word, as follows:

[1] In fact, arguments are advanced by some retail executives against putting a cost code on the ticket when the store is on the retail method of inventory. See *Manual on Receiving Department Operations, op. cit*, p. 63

1	on	7	se
2	tw	8	ei
3	th	9	ni
4	fo	10	te
5	fi	Decimal point	po
6	si		

By this method, $2.85 would be written as "twpoeifi" or simply as "tweifi" if it is considered unnecessary to indicate the decimal point.

Many other types of cost codes can be worked out through using certain symbols or arbitrary groups of letters or numbers, one for each digit or for each cost price. Since most codes can in time be figured out by either customers or salespeople, a store may find it desirable to change price codes at intervals.

Other Information on Price Tickets.—The date at which the merchandise was put in stock may appear on the price ticket The object of this is to show up slow-selling merchandise so that special attention can be given to it through price reduction or special selling effort which will speed up the rate of turnover In some departments, such as furniture, it may be necessary to show only the season. Thus, A may refer to the first half of the previous year, B to the last half, C to the first half of this year, etc. If the month also is wanted, A2 would refer to February of last year, the second month of the first half of last year. If the store does not use letters to show cost, it may give each month a letter The last few letters of the alphabet might each represent a year. For example, the letters L to W might represent the months and the letters X, Y, and Z the years. If the months are lettered consecutively and X stands for 1941, the combination 15NX would mean Mar 15, 1941.

The buyer may also want to know the source of the merchandise. This can be put on the price ticket by giving a number to each selling house from which the buyer purchases Other stores will place on the ticket a number that refers to the invoice sent with the goods or to the store's copy of the order.

The price ticket may also carry information concerning style, size, and color of the merchandise to which it has been attached. Where two departments are carrying similar merchandise, the price ticket may also carry the department number[1] The

[1] With some types of goods the price ticket may also carry washing instructions or other information about the care of the article

following example shows the manner in which some of the above material might be shown on a price ticket.

HUTTON DEPT STORE
Bloomington
A 2 42
4.30 NRS
$5.00

EXPLANATION OF THIRD LINE

A 2 —date when merchandise was put in stock—second month (February) of first season of 1940
42 —number of the manufacturer from whom merchandise was purchased

EXPLANATION OF FOURTH LINE

4 —code letter representing color—red.
30 —code letter representing size—30
NRS—cost of merchandise—$3 80.

EXPLANATION OF FIFTH LINE

$5 00—retail price of article

Marking and Attaching Ticket.—Different types of price ticket have been devised for different types of merchandise.[1] On some things, such as crockery, it is a gummed label. On others, it may be a pin ticket. Still other types of merchandise may have the ticket sewed on In order to discourage the practice of taking out clothing, wearing it, and then returning it to the store, a type of price ticket is often used which cannot be put back on the article without showing that it has been removed. Because the ticket is on the outside of the garment, the garment cannot be used without removing it.

Stores used to write out price tickets by hand. To make it harder for salespeople to change the price ticket, a colored ink was used. Because a printed or typed ticket is not only harder to change but also neater in appearance, they are now being used more than handwritten tickets. If only a few are to be made, they may be prepared by using a hand stamp. If any quantity

[1] For a detailed discussion of the great variety of methods of price marking, see *Manual on Receiving Department Operations, op cit.* Pages 66–73 of this manual give the suggested price marking (type of price ticket recommended, method of attaching, and the location of the ticket on the merchandise) for a large number of merchandise items

of price tickets is to be made, a regular marking machine will be used.

Re-marking of Merchandise.—In addition to the original marking of the goods when they come into the store, re-marking of some articles becomes necessary owing to: (1) price revisions (for example, markdowns); (2) the need for re-marking customer returns, exchanges, and refunds; (3) the need for replacing soiled or mutilated price tickets. The receiving and marking department, if the store is large enough to have one, may perform the entire re-marking operation, or it may be given a partial control over it.[1] In some cases, however, the re-marking is done by salespeople under buyer supervision. The chief argument for centralizing the responsibility for re-marking in the receiving department is the probability of better control.

5. *Distributing the Goods to Selling Floor or Reserve Stock Room*—The final step in the handling of incoming goods is the movement of the merchandise from the receiving department to the selling floor or to a reserve stock room.[2] Prompt distribution is a necessary part of an efficient receiving process If marked goods are not moved promptly, not only may sales of those items be lost but other merchandise as well may be slow in reaching the selling floor because the receiving room becomes congested and the entire receiving operation is slowed up. The goal of the entire process in the receiving department is the prompt and continuous flow of merchandise from the point at which the goods are received into the store to the selling floor.

INVOICE PROCEDURE

The invoice is the itemized bill for the merchandise, sent to the store by the vendor, that shows the vendor's charge against the store There is the same need for speed and control in the handling of invoices that there is in the receiving of the merchandise itself. Because invoices must be paid within a certain time if the cash discount is to be received, the store should prevent delay in handling them. Another reason for eliminating delay

[1] If the re-marking is performed by the receiving department, the goods may be returned to the receiving room for re-marking or the process may be carried out in the selling department by representatives of the receiving room.

[2] The stock carried on the selling floor is called "forward stock"

in the handling and payment of invoices is that the store wants a reputation for prompt payment so that the wholesaler or manufacturer will consider it as a desirable customer; thus, the store may be offered exceptional buys that are not offered to the general run of the firm's customers. Another reason for invoice control is to prevent any duplication in payment of an invoice. As a systematic method of invoice procedure is followed, there results a saving of time and effort in locating a missing invoice.

In many stores, as soon as possible after invoices are received, they are recorded on an invoice register. This record is for control purposes, for it provides a basis for following up invoices that are delayed or lost in the merchandise receiving department The invoice register is usually in the form of a sheet with columns for the different kinds of information desired. The information usually called for includes the date of the invoice, the register number, the date received, the vendor's name, the amount, and the date when the invoice is returned from the receiving room.[1]

There may also be a certain amount of information that the store desires to place upon the invoice itself. A form, or rider, called an *apron* may be attached to the invoice to carry this information. Another method is to stamp a form on the back of the invoice that provides the necessary space for notations. There is considerable variation among stores as to the notations required on the invoice (or the apron attached to it); but these usually include at least the invoice register number, the transportation charges, the date received, and the signatures of the various people who handle the invoice [2] Invoice aprons may be of different colors or have other distinguishing marks to indicate that the invoices to which they are attached belong to special groups. For example, a pink apron might indicate an invoice for the basement store, or a blue one might be used to show that the invoice is strictly a 10-day bill.

[1] In some cases the register may contain other information, such as the department number or the receiving-record number

[2] In a large store, there are many things to check before a vendor's invoice is paid An apron containing the items or points to be checked may be attached to the invoice to facilitate the work of checking This method definitely fixes responsibility for checking the invoice, inasmuch as failure to check an item will show up because the space for the signature of the individual checking that point will be blank on the invoice apron

After an invoice has been registered and an apron has been attached to it (on the assumption that an apron is needed), it should be checked against the store's or the buyer's copy of the original order to make certain that the vendor has billed the store for merchandise in the amounts and at the prices specified in the order. The shipping instructions and terms on the invoice should also be checked with those on the order. If at the time the order is made out special notations are placed on it that may be important in the proper handling of the invoice, this information should be indicated on the invoice by the order checker (the individual checking the invoice against the order). For example, any special instructions as to routing of the shipment should be transferred to the invoice. Then when the invoice is checked against the receiving record, any violation of the store's routing instructions will be apparent and provision can be made for charging back to the vendor any excess transportation charges.[1]

The invoice is next checked against the receiving record to see whether or not the shipment for which the store has been billed has been received. If the receiving record shows that the shipment has arrived, a notation is made on the invoice or invoice apron. The transportation charges should be noted on the invoice

After the invoice has been checked with the receiving record, it is turned over to the merchandise checkers, who see that the actual merchandise, item by item, is in the shipment as called for by the invoice.[2] A lock file is often used to hold the invoice after it is checked with the receiving record This is ordinarily in the form of a small board upon which the invoices are held by a locking device that permits use of the invoices on the file but prevents their removal by checkers, markers, or buyers; thus, it eliminates the misplacing or the defacing of invoices.

After the invoice has been checked against the actual merchandise, the buyer "retails" it and approves its payment By retailing an invoice is meant the process of placing opposite each item on the invoice the planned retail price for that item.

[1] *Manual on Receiving Department Operations, op cit*, p. 57

[2] On the assumption that the merchandise is checked directly against the actual invoice As discussed earlier in this chapter, the invoice may be kept in the invoice office, and the checking may be done by the blind-check system.

This is generally done by the buyer at the same time that he inspects the quality of the merchandise

Instead of having the buyer retail the invoices, some stores use a preretailing method. Under this plan, when the buyer makes out a merchandise order, he places the retail prices on all copies of the order except the one going to the manufacturer. Then when the vendor's invoice is received, the order checker transfers the retail prices from the store's or buyer's order to the invoice. This method makes it possible for the receiving department to mark the goods promptly without waiting for the buyer to retail the invoices. However, for many lines of goods preretailing may not be desirable. For example, on the purchase of fur coats the buyer could set the retail prices much more intelligently after an examination of them than he could before he had seen them.[1]

Stores that use the preretailing method ordinarily permit the marking of the merchandise without reconsideration by the buyer after receipt of the goods only on staple lines of merchandise. On fashion merchandise the buyer has to reconsider, after examination of the goods, the retail price placed on the order (and transferred to the invoice) and either approve it or change it. There is considerable difference of opinion among store executives concerning the desirability of preretailing[2] However, the use of the method has been growing and there are many lines of merchandise in which it is now being widely and, apparently, successfully used.

After the invoice is "retailed," it is used by the markers as a guide in marking the price tickets. This is on the assumption, of course, that the markers get their information directly from the invoice. As previously indicated, the invoice may be kept in the invoice office and the markers may get price information from a dummy invoice or from samples of the merchandise marked by the buyer.

As each person who handles the invoice passes it on to the next person, he signs the apron or stamped form to show that he has performed his function and that the invoice is leaving his hands

[1] Preretailing may be impractical also in the case of goods of frequently varying price.

[2] One of the advantages from a merchandising standpoint that is claimed for preretailing is that it causes the buyer to think in terms of the retail price when he is purchasing the merchandise.

When the invoice has passed through the complete procedure, the signatures on it are checked to make sure that everyone who should have had the invoice has really had it.

Finally the invoice is sent to the accounts payable office, where it is figured and the proper amount charged to the department or departments getting the merchandise and the proper figure credited to the vendor's account.

Summary.—As pointed out at the beginning of this chapter the basic operations involved in the receiving process are fundamentally the same in all kinds and sizes of store. However, from the preceeding discussion, it should be clear to the reader that the number and order of steps in the receiving of merchandise and the handling of invoices would vary considerably in different stores. The particular system or routine for handling incoming merchandise must be adapted to the needs of the individual store. The goal of the receiving operations should be to provide adequate control of the merchandise and invoices with the minimum delay in getting merchandise to the selling floor and with minimum handling costs consistent with proper control.

CHAPTER XI

PRICING THE MERCHANDISE

The pricing of the goods or services offered for sale is one of the fundamental problems of retailing. The success of every retail establishment depends to a considerable degree upon the accuracy with which this pricing is done. The merchant desires to set the prices at the point that will bring the highest net return; this involves not only a consideration of the price per unit article but also the number that would be sold at the different prices per unit. If the price the merchant places upon the goods is too low, his profit will not be so large as it should be or it may disappear entirely. On the other hand, too high a price will mean fewer sales and therefore a loss of potential profits. No merchant or store buyer can in all cases determine the selling price that is exactly right, for there is no simple rule or formula by which a retailer can determine the prices at which the goods should be offered. However, for his merchandising operation to be successful a retailer must use sound judgment in evaluating the relative significance of the various factors affecting the price that should be placed on the goods originally and must make prompt adjustments should the original price estimates prove to be incorrect.

Factors in Retail Pricing.—Among the many factors that a merchant might consider in determining the retail price of an article, the following are of chief importance: (1) the cost of the goods and the costs of selling them; (2) the rate of turnover of the article; (3) the possible markdowns in price or shrinkage in quantity before the merchandise can be sold; (4) the desirability of the goods from the viewpoint of the customers; (5) the elasticity of the demand for the article; (6) customary prices; (7) the competition of other retailers; (8) price lines; (9) psychological effects of the prices; (10) legal restrictions upon the pricing freedom of the retailer.

1. *Cost of Goods and the Selling Costs.*—The cost of the merchandise plus its share of the total costs of the store set the lower limit below which the selling price may not fall without loss to the store. If, for special reasons, some goods are sold at less than this lower limit, the deficits on these goods must be made up in the sales of other merchandise, because the retailer must get back at least all merchandise and operating costs or fail in business.[1]

Costs must not be overemphasized as factors in fixing the prices. If the retailer adds to the cost of his merchandise an amount to cover the estimated selling costs and a reasonable profit, he gets an estimated price that is highly desirable from his standpoint. It is the proper price, however, only if it is also attractive to his customers; whether or not this is true depends upon the prices of competing stores, the desirability of his particular merchandise, and many other factors. For example, if the merchant has paid too much for certain merchandise in the wholesale market in relation to the prices at which other stores have been able to secure comparable merchandise, the estimated retail price arrived at in the above-described manner will be too high for the goods to sell competitively On the other hand, if the retailer succeeds in obtaining in the market an unusually desirable article (from the customers' viewpoint) that his competitors do not obtain, he may be able to sell the article satisfactorily at a price that not only covers all costs but in addition leaves an unusually large net profit on the goods. The merchant's information on costs helps him in determining the lower limit of profitable selling, but the exact price at which an article is to be sold ordinarily must be determined by other factors or considerations.

2. *Rate of Turnover.*—The promptness with which articles sell, or their turnover, is an important consideration in their pricing. A merchant may be willing to make less profit on each sale of articles with a high turnover because he receives this profit more frequently. For example, if a merchant expects a $5 profit on a line of goods during a particular period and only one item is sold, the markup must be high enough to return the $5 net profit

[1] That is, over a period of time. A merchant might operate for some time at a loss and still continue in business; however, even then the business would be a failure in the sense of showing a loss.

on the one sale. On the other hand, if two units were sold during the period, the same total profit could be made by obtaining only $2.50 profit on each of the units sold.

A smaller markup over cost may also be possible with a faster stock turnover, because an increase in the rate of stock turnover ordinarily decreases certain operating expenses and tends to lessen the amount of markdowns (or, in some goods, the amount of physical shrinkage or spoilage).[1] Thus a lower original price on the merchandise may result in a satisfactory net profit and at the same time provide the merchant a competitive advantage in the sale of his goods.

3 *The Possible Markdowns in Price or Shrinkage in Quantity.*—In many lines of merchandise, it is likely that part of any amount of goods purchased by the store will be sold only after marked down from the original price. This is especially true in the case of fashion goods. Thus, in setting the original price on such merchandise, the price is set high enough to allow for later markdowns.

Particularly in the case of food products, there may be physical shrinkage or deterioration of the articles that should be allowed for by the merchant. For example, in determining the retail price of fresh vegetables per pound, the grocer may consider the probable loss in weight in the selling process.

4. *Desirability of Article from Customer Viewpoint.*—What the customer is willing to pay depends primarily upon the desirability of the article from her standpoint. It may be the beauty, the exclusiveness, the usefulness, or other qualities that make the article desirable to the customer. For example, when a particular style in clothing is new and not common, the article of clothing can be sold at a much higher price than when every store has plenty of such goods, largely because the element of distinctiveness makes the article particularly desirable.

Because salespeople continually are coming in contact with the store's customers and are hearing their comments on goods, they should be able to judge "what the traffic will bear," that is, what price the public will pay. Thus, many stores ask their more experienced salespeople to suggest the selling price on merchandise, especially fashion goods, and then take these suggestions into consideration when the price is actually set One large

store used a direct-mail campaign as a new way of finding out what their customers wanted to pay for a wide assortment of merchandise The store sent out a list of the merchandise to be featured in January and February sales. Each item was followed by three prices and a space in which the customer could write in her own price if she desired. The customers were asked to check or write in the prices that would interest them. The direct-mail piece carried the heading "Your ideas are more important than ours on this."

5. *Elasticity of the Demand for the Article.*—Because the retailer desires to get the highest net return, he is interested not only in the price per unit but also in the probable sales at the various possible prices per unit. Thus the elasticity or inelasticity of the demand for an article is an important consideration in the determination of its price. If, at a lower price, so many more units of an article are sold that the total dollar sales are larger than they would be at the higher price, the demand is elastic For example, suppose that at 70 cents 500 units of an article were sold, giving a total sales return of $350. If, at a price of 65 cents, 600 units could be sold, the sales total would be $390. On the other hand, if the demand were inelastic, the lower price would result in a lower total-dollar-sales figure. For example, if at the 65-cent price only 520 units were sold, the total sales would be $338.

The desirability of a relatively high or low price on an article involves, of course, not only a consideration by the retailer of the effect upon the sales volume, but also the likely results so far as dollar gross margin and operating expenses are concerned

6. *Customary Prices*—Goods may have customary prices. Customers have acquired the habit of paying certain prices and expect to find the articles at these prices. It is often difficult to sell the goods for more than these prices, and, conversely, most customers do not expect to buy the merchandise for less than the customary prices; hence, the retail prices often remain constant in spite of marked variations in costs of production and selling In some cases, instead of varying the retail price of articles, changes are made in the quality or quantity offered at the customary price. For example, during the depression years following 1929, many candy manufacturers continued the sale of the 5-cent bar but increased the size of the bar.

7. *Competition of Other Retailers*—The merchant must consider his competitors' prices. When he is appealing to the same class of trade and rendering the same service, it is difficult for him to obtain a higher price than his competitors are asking for similar goods. In some instances, because of the customers' ignorance of competitive prices on certain articles, a retailer may be able to get a higher price than his competitors for a time However, this selling above competitors' prices is certain to cause ill will among customers when discovered. If one store sells on a cash-and-carry basis and another extends credit and delivers, these two stores are not rendering the same service, and thus the prices on similar merchandise might be expected to vary by the difference in the service costs.

8. *Price Lines*—If a store has definite price lines, they must be considered in determining the price put on the merchandise. If the store sets the retail prices simply by adding a certain markup to cost, one suit, for example, might be priced at $38.50 and another at $41; but because the store believes in selling at a few price lines only, both suits would be marked at the nearest price line, which might be $40.[1] For those lines of merchandise sold at well-defined price lines the procedure essentially is not one of buying goods and then determining at what price they should be sold but rather of buying backward from a retail price. That is, the prices at which the goods are to be offered are predetermined, and the buyer looks for merchandise suitable for sale at the regular price lines and that can be bought at a cost price that will allow a satisfactory markup.

The practice of selling merchandise at only a few defined price lines has certain selling and other advantages from a merchandising standpoint,[2] but it has some limitations from a pricing viewpoint It often is possible to mark up the price of an article a few cents without increasing the selling effort required or decreasing the sales volume; such small adjustments in price are not possible in most cases if goods can be sold only at the various price lines. These small additional amounts look insignificant, but they often

[1] On the assumption that there are no other factors, such as unusually good quality, which would make it desirable to place one or both of the suits in some other price line.

[2] See discussion of price lining in Chap VIII, p. 128.

represent a substantial addition to the net profit on an item. For example, suppose that a $1.95 price on an article is raised to $1.98 without any effect upon the selling costs involved or the sales volume. This is only a 3-cent increase, but it yields an additional net profit on the article of 1.5 per cent of the sales figure In some cases, it may be possible to raise the price line itself; but that is often undesirable, especially if the price line is well established with the customers of the store. The use of standard price lines also may make it more difficult for the store to meet competitors' prices. The pricing of goods in definite price lines also complicates the problem of pricing during periods of rising or falling price levels. Either changes must be made in the standard price lines or additional ones added, or adjustments must be made in the quality offered at particular standard prices

9. *Psychological Effects of the Prices.*—Certain prices may have psychological effects upon the customers At times, goods may be priced so low that the customers doubt their worth and so refuse to buy.[1] If re-marked at a higher price, the same goods may sell readily, because the customers no longer have this doubt aroused by a low price.

Some merchants price goods at odd figures believing that this helps the sale of the articles. For example, it is asserted that to many people a price of $4 95 seems to be a dollar lower than $5, because the dollar figure gets greater attention than the cents figures. The psychological difference between $3 85 and $4 may be much greater than that between $4 and $4.15 although the actual difference is the same in both cases. If an article is priced at 22 cents, it seems to have been figured down from 25 cents.

The general practice of using odd prices tends to center attention on price economy and implies that the store is shaving off the last cent of the retail price for the benefit of the customer. The practice also helps prevent dishonesty on the part of the salespeople because the odd price ordinarily requires the making of change, which means that the salesperson usually has to record

[1] In the purchase of many goods, the average customer has little, if anything, in the way of definite standards by which to judge the quality of the goods offered to her. Thus, she tends to judge quality in many cases almost entirely by the price placed on the goods

the sale. Some stores believe that, because odd prices make it necessary for the customer to wait for change, their use gives the salesperson a chance to suggest additional purchases.

There is considerable difference of opinion among retail executives as to the real value of odd prices, especially so far as their psychological value is concerned Some executives feel that a price just under a unit still appears to the customer very much like the unit amount, that is, that $1.95 appears very much like $2. Experiments have shown that, in some stores, certain products sell as well at even-unit prices as at odd prices and that, in some cases, sales are unaffected by changes of the price even as much as 10 per cent *above* the even-unit price. Thus, it appears that not only $98 or $99 but $103 or $104, for example, look very much like $100 to many customers. Some retail executives have concluded that the idea that an odd price just under a unit price has a psychological effect upon the customer should be relegated to the scrap heap of erroneous ideas

However, there is reason to believe that the placing of an odd price on goods tends to have a stimulating effect on sales in some lines of commodities and not in others Also, the effect of such prices may vary in different stores. A chain of stores in a large Eastern city found that $1.95 was a far better price than $2. Interestingly, however, the stores found that 55-cent hosiery sold very much better than the same hosiery at 50 cents It seems likely that many stores have used odd prices simply because of custom, with little or no attempt to check their actual value from the standpoint of the particular store It is highly desirable that the retailer attempt to determine the relative effectiveness of odd and even prices from a selling standpoint in his store. If a particular article will sell as well at $1 as at 95 cents, the extra 5 cents represents an addition of 5 per cent net profit.

10. *Legal Restrictions upon the Pricing Freedom of the Retailer.*—The chief legal restrictions upon the pricing freedom of retailers are laws that permit the owner of branded merchandise to control by contract the price at which such merchandise is resold by wholesalers and retailers and laws that forbid the sale of goods below cost. Laws of the first type are commonly known as "fair-trade" acts and of the second frequently as "unfair-practices" acts. Although from the standpoint of the retailer both these

types of legislation are attempts to establish some form of minimum price and thus restrict his pricing freedom, the two types of act differ widely in several important respects, as will be shown in the following discussion.[1]

Fair-trade Acts.—Resale-price-maintenance acts, or "fair-trade" acts as they are commonly called, are in effect in 44 states.[2] These acts legalize price-maintenance contracts in the sale of branded articles in intrastate commerce.[3] Not only do these acts provide that such contracts are not in violation of any law of the particular state, but they also make any such contract between a vendor and one retailer in the state legally binding upon all other retailers in the state, regardless of whether or not they have signed similar contracts.

In order to come under the provisions of the fair-trade act of a state the product must be "in fair and open competition with commodities of the same general class produced by others." The advertising for sale, selling, or offering to sell of an article at less than the price fixed in any contract entered into under the act is defined as unfair competition and "is actionable at the suit of any person damaged thereby." In the fair-trade acts of some states, it is provided that suit may be brought for an injunction against violators, by any person injured by the violation. The acts permit the distributor to sell at less than the fixed price when discontinuing handling of the product,[4] when the merchandise is damaged or deteriorated in quality and notice thereof is given to the public, and when the goods are sold under court order

The Miller-Tydings bill, passed in 1937, legalized resale-price-maintenance contracts in interstate commerce by providing that such contracts are exempt from Federal antitrust laws.[5] Thus, a

[1] See Edwards, Corwin D., "Appraisal of 'Fair Trade' and 'Unfair Practices' Acts," *Journal of Marketing*, July, 1940, Vol V, No. 1, p. 3

[2] At the present writing (1941), only Delaware, Missouri, Texas, and Vermont do not have such acts

[3] The status of resale-price maintenance prior to such legislation is not discussed here because it is adequately treated in a number of recent marketing textbooks

[4] In some acts, it is required that the manufacturer must first have been given a chance to take back the stock

[5] The Miller-Tydings Act was attached as an amendment to the District of Columbia Revenue Act of 1937.

vendor in one state may enter into a resale-price-maintenance contract with a retailer in another state, provided, of course, that the retailer's state has a fair-trade law

In considering the possible effects of fair-trade acts upon the pricing freedom of the retailer, it must be remembered that the acts apply only to products sold under the owner's or producer's brand, trade-mark, or name and that the acts are merely *permissive* and not *mandatory* with regard to the owner or producer of such branded merchandise entering into price-maintenance contracts with distributors. Many articles are sold at retail in unbranded form and thus are not covered by resale-price-maintenance legislation In the case of branded merchandise, the owner or producer may or may not wish to enter into price-maintenance contracts with distributors depending upon the type of distribution involved, his estimate as to the effect upon private-brand competition, the probable cost of enforcement, and other factors

The chief argument that has been advanced for resale-price maintenance from the manufacturer's viewpoint is that it permits him to control loss-leader selling and irresponsible price cutting of his article by which some dealers injure the reputation of his product and discourage other dealers from handling it. However, the backing for fair-trade legislation in recent years has come largely from retailers, rather than manufacturers, and most contracts have been the result of efforts of organized retailers in certain trades to get producers to issue the contracts lest they lose the good will of the retailers.[1] Thus, it appears that the main purpose of the agitation for resale-price-maintenance legislation and for the executing of contracts under the acts has been to protect not the good will attached to the manufacturer's brand but the operating margins and sales volume of certain retailers against low-price competition [1]

Although it is too early to determine how important resale-price-maintenance arrangements will become as a pricing factor in the retail trade, it seems likely that only for a minority of products will such contracts be used. Professor Grether, who has been a leader in the study of resale-price-maintenance legislation, has estimated that not more than 15 per cent of the retail trade of the country will be likely to be carried on under price-maintenance

[1] EDWARDS, *op. cit.*, p. 8.

contracts.[1] To the extent to which such contracts are entered into, the minimum price on the merchandise is set for the retailer. Whether or not he has so contracted does not matter; for, as pointed out above, if one retailer in a state has contracted to maintain a stipulated price on an article, all other retailers are equally bound.[2]

Unfair-practices Acts.—More than half the states now have laws of some type that forbid the sale of goods at retail for less than cost. In most cases, these state laws cover all sales at retail and at wholesale. Some states have special statutes that apply only to the sale of particular types of commodity. Some states have general statutes that cover both price discrimination and sales below cost (and sometimes include a general prohibition of the practice of using loss leaders); but the trend appears to be toward special statutes limited to price discrimination or to sales below cost.[3]

In general the typical sales-below-cost type of legislation declares it unlawful to sell below cost, defines how cost is to be determined, provides exemption for certain forms of distress selling or "to meet the legal prices of a competitor," and establishes the penalties for violation of the act. Below cost (or less than cost) generally means less than the cost of the goods plus the cost of doing business. The merchandise cost is ordinarily taken as invoice cost or replacement cost, whichever is lower.[4] Under some laws the distributor's average cost of doing business is to be added to the merchandise cost to determine the minimum price at which the goods legally can be sold. Under other laws the cost is determined by adding to the merchandise cost a minimum percentage markup established in the law, and other acts provide for cost surveys for the purpose of obtaining an average cost to be used as a substitute for the costs of the individual

[1] GRETHER, EWALD T., "Why Most Retail Prices Will Escape Control under Fair Trade," *Printers' Ink*, Feb. 17, 1938, p. 11. See also GRETHER, EWALD T., *Price Control under Fair Trade Legislation*, Oxford University Press, 1939 (see especially Chap. 12).

[2] Provided, of course, that they know of the contract, for the laws specify "whoever *knowingly* and *wilfully* advertises, offers for sale . . ." (italics are the authors').

[3] GRETHER, EWALD T., "Current Trends Affecting Pricing Policies," *Journal of Marketing*, January, 1941, Vol. V, No. 3, p. 222.

[4] EDWARDS, *op. cit.*, p. 4.

distributor. Many other differences are found in the details of the cost provisions of the various state unfair-practices acts.[1]

The unfair-practices acts differ greatly in several respects from fair-trade acts although both types affect the retailer's pricing problem through placing a restriction on his freedom as to the minimum price The unfair-practices acts, in the common form covering all wholesale and retail trade, cover the sale of *all* products handled by the retailer, as contrasted to fair-trade acts which apply only to branded merchandise. Whereas the resale-price-maintenance acts merely *permit* the owner or producer of a branded product to enter into price-maintenance contracts if he thinks such action desirable, the unfair-practices acts are *mandatory*, for it is declared unlawful to sell at less than cost. Thus a general unfair-practices act in a state sets up a market floor of "cost" (as defined in the statute and as interpreted in the courts) below which the retailer cannot legally sell his products. As contrasted to the resale-price-maintenance contracts which are enforced by private suits for damages (and, in some states, suits for injunction), the sales-below-cost statutes are enforced by the state.[2]

Although, as yet, unfair-practices statutes have been enacted in a much smaller number of states than have fair-trade acts, there is reason to believe on the basis of the trend in state legislative activities that they may become almost as widely adopted.[3]

Nature of Retail-price Setting.—The relative importance of the above-described factors in pricing naturally varies widely for different goods and under different competitive conditions. In some instances the retail price may be largely the result of one major factor. For some branded articles the prices may be determined by the prices stipulated in resale-price-maintenance contracts. For other articles, certain customary prices may be so firmly established that the retailer may have to fall in line in his pricing of the same or comparable merchandise if he expects to sell it effectively. In some instances the prices that competi-

[1] See TANNEBAUM, ROBERT, "Developments Affecting Cost under the Unfair Practices Acts," *Journal of Business of the University of Chicago*, April, 1940, p. 118

[2] For other differences, see EDWARDS, *op. cit.*, p 3

[3] GRETHER, EWALD T, "Current Trends Affecting Pricing Policies," *Journal of Marketing*, January, 1941, Vol V, No. 3, p. 222.

tors are charging are the chief factor in the setting of a price on the goods. This is especially true in lines of merchandise that are sold under well-known brands or that have other characteristics that are directly comparable in different stores.

In many instances, however, the determination of the figure at which a specific article is to be priced involves an evaluation of many factors. Certain of these considerations may largely determine the possible price limits within which the merchandise might be offered For example, the lower price limit may be set by an unfair-practices act in the retailer's state On the other hand, the desirability of the article and other factors largely determine the upper price limit at which it might be priced But at what figure within these limits should the merchandise be priced? Clearly, a satisfactory answer to this question requires judgment as to the elasticity or inelasticity of demand for the particular merchandise. Whether or not a difference in the price at which the item is offered will tend to bring relatively large or small changes in the sales depends, among other things, upon the nature of the article, the extent to which its use is a habit, and the existence of satisfactory substitutes.[1] The retailer must also consider the possible effects upon store costs of the larger or smaller number of sales that may be estimated at the different possible prices. As previously pointed out, the merchant desires to set the price at the point that will bring the highest net return. It is evident, then, that for many articles the retail price is an estimate by the retailer of what seems to him to be a satisfactory price for the goods, in view of the factors he has considered The more familiar he is with the price-determining factors and the more carefully he evaluates the relative importance of these factors, the more likely is the price he sets to be the proper price both from the viewpoint of the customer and the profitableness of his retailing operations.

One-price Policy.—In the majority of stores the one-price policy is followed as a general practice in the dealings between the retailer and the customer Under this policy the price that the retailer has determined for the merchandise is plainly marked on the goods, and they are sold, at any given time, to all buyers at this one price. Thus, all buyers are treated alike, and an individual buyer has no choice as to the price he will pay for a

[1] For a further discussion, see any of the standard textbooks on economics.

given article but simply as to whether or not to take the merchandise at the quoted price. The opposite of the one-price policy is the variable-price policy. Under this policy the price paid by a customer at a given time for a certain item of merchandise is determined by a bargaining process between the customer and the retail salesperson. Thus, at the same time, different customers would pay higher or lower prices for the same merchandise depending upon their relative bargaining abilities.

Undoubtedly, most customers prefer to deal with stores in which the retail prices are definitely established and not subject to bargaining. Definite adherence to a one-price policy tends to build up confidence on the part of the customer in the store's prices and also results in savings both for the customer and for the store in the time required for a transaction. Although the one-price policy is the standard practice in the retail field, there are numerous exceptions or modifications of the policy, particularly in certain types of single-line stores or shops [1] Exceptions or modifications of the policy are also frequently found in the case of durable goods whose sale involves the problem of trade-in allowances.

Under the one-price policy the price to be paid is determined not at the time of sale by a bargaining process between customer and salesperson but rather by the retailer's price estimate at the time the goods are marked and put in stock. If the merchant's estimate of the retail price is incorrect, adjustments in the price are made not by bargaining with individual customers, but by revising, after a trial, the price at which the merchandise is offered to all customers. Because the customer has only the choice of buying or not buying at the quoted price, it is essential that the retailer properly estimate the price at which the goods are offered. Thus the importance of a sound determination by the retailer of the prices at which his merchandise is to be offered is to a large degree the result of the widespread adherence to the one-price policy by retailers.

Markup.—Markup is the difference between the cost of an article and its selling price. Cost means what the goods cost the merchant when they reach his store; it is the amount paid to the

[1] For a discussion of the possible need for the modification of the one-price policy in the small shop, see John W Wingate and Norris A. Brisco, *Elements of Retail Merchandising*, pp. 360–361, Prentice-Hall, Inc., 1938

vendor plus any freight and cartage costs in getting the merchandise to the store. The costs at the store plus the markup give the selling price.

The term "markup" may be applied to the difference between the cost and selling price of a single item, a group of items, or the stock as a whole. It may be expressed either in dollars or as a percentage figure. When expressed as a percentage, it may be in terms of the retail or selling price or in terms of the cost price. For example, suppose an article costing \$2 is marked to sell at \$3; that represents a markup of \$1, which is a markup of 33⅓ per cent of the retail price and 50 per cent of the cost price. Stores differ as to the basis for figuring markup. Some merchants figure markup on the cost of the merchandise, and others figure it as a percentage of the selling price. Either method is correct if the markup, the expenses, and the net profit desired are all expressed as percentages of the common basis, cost price in one method and selling price in the other. However, because in retail accounting the expenses and net-profit figures are expressed in terms of sales, the store should figure markup upon the selling price. Although expressing markup as a percentage of cost is the older method, the generally accepted plan now is to express markup as a percentage of the selling price.

Incorrect Method of Figuring Markup.—A merchant must mark the goods at a price that will cover the cost of the goods, as well as the total expense of selling them, and also yield the desired net profit.[1] A common error that is likely to arise when the retailer is figuring the markup necessary is for him to find the percentage of the selling price necessary to cover his expenses and the desired profit and then to apply this same percentage figure to the cost price to determine the markup in dollars. To show the incorrectness of this method, let us assume the following case: A merchant buys an article at a cost price of \$1. He figures that 25 per cent, or 25 cents out of every dollar of sales, goes for store expenses, and he desires a 5 per cent profit on all sales. Therefore, he reasons that he needs a markup of 30 per cent (25 per cent plus 5 per cent), which must be added to the

[1] In order to simplify the discussion at this point, it is assumed that there are no markdowns. The effect of markdowns (and other reductions) upon the amount of markup that should be put on the merchandise when priced is discussed at a later point.

cost to get the selling price. Thirty per cent of \$1, the cost price, equals 30 cents, the amount of the markup. One dollar plus the 30 cents equals \$1 30, the selling price, which is not the correct retail price.

If the merchant, remembering that his cost of doing business was 25 per cent of sales, applied that percentage to \$1 30 (the supposed proper selling price), he would discover that the cost of selling not only wiped out the expected net profit but in addition did not leave enough to cover completely the cost of the goods. Twenty-five per cent of \$1 30 is 32½ cents; and when this is subtracted from \$1.30 the balance is 97½ cents, which is less than the cost of the goods delivered at the store. This mistake in determining the selling price comes from not figuring markup, expenses, and net profit on the same basis.

Correct Method—In order to determine the correct selling price, the merchant must remember that, because he is figuring expenses and net profit as percentages of sales, he must also figure markup as a percentage of the selling price The above problem worked on this basis may be shown as follows:

Let selling price = 100%
Markup to cover expenses and profit = 30% of selling price
Selling price (100%) – markup (30%) = cost (70%)
Cost = \$1
70% = \$1
1% = 0 0143
100% = \$1.43, the correct selling price

To prove the correctness of this selling price, apply the figures of 25 per cent for expenses and 5 per cent for profit against the retail price; the result is 35.8 cents for expenses and 7.2 cents for net profit. When these figures are subtracted from \$1.43, the balance is \$1, the cost of the merchandise.

In place of the above method the merchant can determine the selling price by translating the markup on retail into a markup on cost and then applying that markup to the cost price. For example, suppose the retailer pays \$1 for an article and he desires a margin of 25 per cent of the selling price to cover expenses and the desired profit. This 25 per cent can be changed into percentage of cost as follows:

$$\text{Let retail price} = 100\%$$
$$\text{Markup on retail} = 25\%$$
$$\text{Retail price} - \text{markup} = \text{cost}$$
$$100\% - 25\% = 75\%$$
$$\frac{\text{Markup}}{\text{Cost}} = \text{markup in percentage of cost}$$
$$\frac{25\%}{75\%} = 33.33\%,$$ the percentage of the cost price that must be added to cost to give the selling price

Thirty-three per cent of the cost price of \$1 gives a markup of 33 cents, which added to the cost price gives \$1 33 as the retail price For most merchants or store buyers, it is unnecessary to go through either of the two methods just described each time they want to figure a markup correctly. Tables can be prepared that will show the retailer or buyer at a glance what percentage of the cost price he must add as a markup in order to cover the expenses and net profit which are expressed in terms of the selling price. The following is a simplified example of such a table:

Markup, Per Cent of Cost	Markup, Per Cent of Selling Price
11 1	10 0
17 6	15 0
25 0	20.0
33 3	25.0
42.9	30 0
50 0	33 3
66.7	40 0
100 0	50 0

Distinction between Initial Markup and Maintained Markup.—In the above discussion, in order to simplify the explanation of the basic idea of markup, it was assumed that the original retail price placed on the goods also was the actual selling price; thus the markup placed on the goods originally would be fully obtained when they were sold. It is obvious, however, that, in many cases, merchandise is sold only after having been reduced in price one or more times. Thus a distinction must be made between the markup above cost that the store attempts to get and the amount that it actually obtains.

The difference between the cost of merchandise and the original retail price placed on it is called the *initial* (or *original*) *markup.*

If the merchandise is marked down one or more times before it is sold, the actual markup obtained is less than the original amount the merchant placed on the goods. The difference between the cost of merchandise and the price at which it actually is sold, which is the amount of markup obtained, is called the *maintained markup.* If an article is sold at the original price marked on it, the initial markup and the maintained markup on the item are the same. It has been said that the store determines the original markup but the customer determines the maintained markup, for the actual markup obtained is known only after the customers have purchased the merchandise.

If an article is sold only after having been marked down, it is the maintained markup rather than the initial markup that determines whether the article brings the store a profit Likewise, it is the average maintained markup[1] of the store or department rather than the average initial markup that determines whether or not the store or department can make a profit [2]

To illustrate the difference between initial markup and maintained markup, assume that an article that cost a merchant $6 is marked up to $10. This is an initial markup of $4, or 40 per cent of the retail price. If the article does not sell at $10 and is marked down to $8, at which price it is sold, the maintained markup on the item is $2, or 25 per cent of the price at which it sold

The same general situation as the above may be true for a department or for a store as a whole. The initial markup for a department for a period is the difference between the cost and retail value of the total merchandise handled during that period. The dollar amount of markup divided by the retail value of the total goods handled gives the percentage of initial markup. These relationships are illustrated in the table shown on page 209.

It is obvious that markdowns will be taken on some of the goods in this table.[3] Assume that at the end of the

[1] Or, more accurately, the gross margin The distinction between maintained markup and gross margin is explained on p. 209. Also see p. 298

[2] Of course, the initial markup might be set so low that even without markdowns the difference between cost and retail would not cover expenses and the desired profit

[3] There are other types of reductions in addition to markdowns. These are discussed in Chap. XII.

	Cost	Retail	Initial markup	
			Dollars	Percentage
Beginning inventory	$12,000	$18,000		
Purchases	36,000	62,000		
Total merchandise handled	$48,000	$80,000	$32,000	40[a]

[a] $\frac{\$32,000}{\$80,000} = 40\%$, the initial markup percentage.

above period the cost value of the closing stock is $18,000[1] This subtracted from the $48,000 which is the cost of all goods handled leaves $30,000 as the cost of the goods sold Subtracting this $30,000 from net sales of $45,000 (assumed) leaves a maintained markup in dollars of $15,000. In terms of the net sales of $45,000, this is a maintained markup of 33⅓ per cent

At this point, attention should be called to the distinction that is properly made between maintained markup and gross margin, although sometimes the terms are used interchangeably Maintained markup is the difference between the gross cost of goods sold and net sales whereas gross margin represents the difference between total merchandise costs and net sales Total merchandise costs are found by subtracting cash discounts on purchases from the gross cost of goods sold and adding alteration and workroom costs.[2] The gross margin obtained by a department or store is sometimes referred to as the "gross profit." This term is misleading, for the margin includes both the cost of doing business and the profit Because the actual profit is usually only a small part of the margin, it seems better to call the margin the "gross margin" rather than "gross profit."

Relationship among Percentages of Initial Markup, Markdowns, and Maintained Markup—In the illustrative examples of the difference between initial and maintained markups given above, it will be noticed that the initial-markup percentage is expressed in terms of the original retail price whereas the maintained-markup percentage is in terms of net sales. For example, in

[1] For discussion of the method by which the closing stock figure is obtained, see Chap XV

[2] For a further explanation of this difference, together with an illustrative example, see p. 298.

the case of the article costing \$6 and marked at \$10, the initial markup was 40 per cent of the original retail price of \$10. When sold at \$8, the maintained markup was \$2, or 25 per cent of the sales figure. Because markdowns are expressed as a percentage of sales, the \$2 markdown (from \$10 to \$8) was 25 per cent, in terms of the sales. It is obvious that the 25 per cent markdown cannot be taken from the 40 per cent initial markup to get the correct maintained figure of 25 per cent. Likewise the maintained markup and markdown percentages cannot be added to get the initial markup percentage, for that method would give a figure of 50 per cent. The difficulty arises out of the fact that the percentages are in terms of two different bases. The figures can be properly handled either by translating the initial markup into terms of net sales or by reducing the markdown percentage to cost. These two methods are shown in formula form below. *First method* (translating initial markup into terms of net sales).

$$\text{Initial markup \%}\ (100\% + \text{markdowns \%}) - \text{markdowns \%} = \text{maintained-markup \%}$$

Substituting figures from above discussion,

$$40\%\ (100\% + 25\%) - 25\% = \text{maintained markup}$$
$$50\% - 25\% = 25\%,\ \text{maintained markup}$$

Second method (reducing markdowns to cost):

$$\text{Initial markup \%} - (100\% - \text{initial markup \%})\ \text{markdowns \%} = \text{maintained markup \%}$$
$$40\% - (100\% - 40\%)\ 25\% = \text{maintained markup}$$
$$40\% - (60\% \times 25\%) = \text{maintained markup}$$
$$40\% - 15\% = 25\%,\ \text{maintained markup}$$

With any two of the three percentage figures given, the third can be determined by use of either of the above two formulas. To illustrate, suppose the initial markup for a department is 30 per cent and the maintained markup 20 per cent What is the percentage of markdowns? Clearly, it cannot be determined merely by subtracting 20 per cent from 30 per cent, for the percentages are of different bases Substituting in the formula shown in the second method above (and letting x equal the percentage of markdowns), we get[1]

[1] The percentages may be written either as 30%, 20%, etc., or in decimal form as 0 30, 0 20, etc.

$$\begin{aligned} 0.30 - (1.00 - 0.30)x &= 0.20 \\ 0.30 - 0.70x &= 0.20 \\ -0.70x &= -0.10 \\ x &= 0.1429, \text{ or } 14.29\%, \text{ the percentage of markdowns} \end{aligned}$$

Elements in Initial Markup.—In figuring the initial markup the merchant includes the profit he hopes to make and an amount to cover all expenses. In addition to these amounts, he must include an allowance for all reductions, which include markdowns, inventory shortages, and discounts to customers and employees. Unless allowance is made for these items, they will result in a maintained figure too small to cover the expenses and desired profit.

The past records of the merchant should show what these reductions have amounted to in the past. This previous experience should give the retailer a basis for estimating the allowance to be included in the initial markup to cover these reductions.[1]

Average Markup.—When a merchant or store buyer says he expects to set a certain markup on the goods in the store or department, he usually means that he plans to average that markup for the store or department as a whole. Although he might mark up everything by a certain percentage, say 35 per cent of the retail price, this method ordinarily would not be good merchandising; for some goods might easily carry a much higher markup, and some would not sell at all if they were marked up by the fixed amount. In many stores, the markups on various goods vary from almost nothing to more than 50 per cent of the retail price. Where a definite markup is expected, the buyer must so price the individual items that his store or department will average this amount.

Many stores send their buyers monthly or even weekly reports of the total initial markup and the total maintained markup obtained so far during the period. If the actual results are not up to the planned figures, the buyer can take this into account in future pricing.[2]

[1] The planning of the initial markup is discussed in detail in Chap. XII.

[2] He may also take other action, such as placing more emphasis on the sale of goods with a comparatively high percentage of markup.

CHAPTER XII

MERCHANDISE BUDGETING AND CONTROL

Meaning of Merchandise Planning and Control.—Some retailers merchandise in a haphazard manner, meeting each problem as it arises in the manner that happens to seem best to them at the particular time. The progressive retailers, however, are realizing more and more that a net profit usually does not just happen but rather is the result of a carefully prepared plan of action and a definite control of operations. As a result, these merchants are attempting to plan their future activities on as definite a basis as possible so as to have a definite goal, the reaching of which will mean the desired profitable operations This plan or budget for a certain period of the chief elements in the merchandising operations of the store is called the *merchandise plan*

Object of a Merchandise Plan.—A passenger train makes its trip from Chicago to New York according to a definite plan or schedule It leaves the terminal at a stated minute for its trip eastward. As the passengers look at their timetables, they see the exact time at which the train is due to pass through each town along the way. The people in those towns know when the train should arrive. Everyone interested in that train can plan his activities concerning it, because it moves according to schedule

The merchandise plan of a store is similar in purpose to the schedule of the train. It shows the merchant or the department buyer the results to be accomplished during a particular period of time just as the train schedule shows the engineer the distance the train must cover within the given time. The train engineer at various times checks the actual distances covered with the schedule figures; and if he is behind time, he may be able to increase the speed of the train and reach the destination at the scheduled time. Likewise, the merchant or buyer at various times can check his actual merchandising results with the planned figures in the merchandise plan; and if the actual results are

less than those planned, he may be able to increase or improve his merchandising efforts and reach the figures in the merchandise plan.

Before a store makes sales, it must purchase merchandise, and these purchases call for an outlay of money. In addition the purchases must be marked up to cover operating expenses, the desired net profit, and the probable reductions, such as markdowns and shortages. How are all these activities to be coordinated? This is accomplished through the merchandise plan, which unites all these activities into one program directed toward the goal of a satisfactory net profit for the store.

The merchandise plan indicates the sales the store expects to make month by month,[1] the stock amount planned for the beginning of each of these months, and the planned amount of reductions, this information enables the retailer to determine the amount of purchases he must make.

The merchandise plan indicates to the retailer the amount of money needed to finance the purchases and gives him some idea of the revenue he can expect from the sales; thus he can provide for the financial needs as they arise. The retailer knows fairly definitely the income and outgo that he can expect during the period covered in the merchandise plan. In a store handling a number of different lines, such as a department store, the periods of heavy investments are not the same in all lines or classes of goods. Thus the time when certain departments need considerable capital for large inventories will be the time when other departments will have their lightest inventories. The capital released from departments with small inventory requirements at one time during the merchandising period can be shifted to those departments requiring large inventories at that time.

The merchandise budget, or plan, shows the capital needs for inventory in the store as a whole, month by month during the season. This information enables the finance and control division of the store to gauge more accurately the needed working capital and so to speed up the rate of capital turnover.

The merchandise plan allocates to the various departments the amount each can have invested in merchandise. The problem of maintaining an adequate assortment of goods with this allotted

[1] On the assumption, of course, that the merchandise plan is broken down by months; some other time interval might be used.

dollar amount divided among the various price lines, colors, sizes, styles, materials, and other merchandise characteristics is a problem of unit control, that is, control of stock in terms of physical units.[1]

In a small store in which the owner is in constant touch with all operations, a merchandise plan in the formal sense may be considered by the owner as unnecessary. However, even in the small store, some preplanning of purchases and other elements in the merchandising operations must of necessity be done; thus merchandise planning in a general sense is being carried on. In many such cases the retailer will find that the preparation of his merchandising plans in the form of a definite plan on paper will provide more definite standards as guides in his efforts to obtain a satisfactory net profit.

In large retail organizations a more elaborate merchandise plan, or budget, is necessary. The size of the establishment requires the delegation of the responsibility for merchandising activities to a merchandising division made up of many individuals who share this responsibility. The merchandise plan provides a guide by which these individuals attempt to secure the desired sales and profit results by proper buying of merchandise, timely adjustments in inventories, adequate promotional effort, and other merchandising means. Also, a carefully prepared merchandise plan furnishes a yardstick against which the management of the store can measure the performance of those individuals charged with the responsibility of the merchandising operations.

Requisites of a Good Merchandise Plan.—The merchandise plans used by different stores vary considerably both as to scope and detail. The period covered by the merchandise budget may vary all the way from one month to a year, but the usual time period is six months. The spring and summer season will be treated in one budget, and the fall and winter season will be planned in another budget. The plan is broken down into monthly or, in some instances, into weekly subdivisions. In a small store the planned figures in the merchandise plan ordinarily are for the store as a whole; in the larger stores with a departmental organization the plan, or budget, will show not only the planned results for the store as a whole but in addition the results

[1] Unit control of stock is discussed in Chap. XIII.

expected of each department or of each merchandise classification within the departments.

If the merchandise plan is to be of any real value as a guide to merchandising operations, it must contain figures that the merchant actually expects to attain. If the Twentieth Century Limited were scheduled in its timetable to cover the distance from Chicago to New York in one hour to two hours less than it actually could make the trip, no one could rely upon the timetable and plan accordingly. If a merchant in his merchandising budget sets figures that he would like to attain rather than those he can reasonably expect to attain under present conditions, his plan does not give him a real guide

The merchandise plan should be prepared in a form that will enable the people affected by it to understand readily the significance and the use to be made of the various items of information presented The most desirable plan is the one prepared in as simple a form as possible, in which the information is presented in terms that are familiar or that can readily be explained to the buyer or other individuals directly interested in the merchandise plan.[1] There is no value in drawing up a merchandise budget if it is not used as a guide in the merchandising activities of the store or department, and to be used it must be easily understood and be attainable rather than merely visionary.

The buyers should be given some part in the preparation of the merchandise plan, for much of the information upon which the budget is based can best be supplied and interpreted by them. Also, if they are partly responsible for the planned figures in the plan, they will feel more inclined to be guided by it. In the large store, much of the information concerning past activities will be supplied by the controller. With this material as a basis and with the advice and help of the merchandise manager, the buyers plan their activities. After these departmental plans are passed by the merchandising division, they are sent to the controller. He reviews them and together with the merchandise manager makes any adjustments necessary to bring them into line with each other in cases where adjustment is needed, as among the

[1] To many merchants the term merchandise "plan" or "budget" suggests a complex, intricate plan that is understood only by a statistician, this is unfortunate, for it may lead the merchants to feel that a merchandise plan is not possible or desirable in their stores.

different departments or divisions of the store. All the departmental plans are then combined into the master plan for the store as a whole.[1] In a small store, the merchant himself may prepare the plan; for a less elaborate plan is needed, and he has close contact with all the various activities of the store.

Although a good merchandise budget is a specific plan, it is not one that cannot be changed as the season advances. It must be flexible; thus, month by month it can be adjusted in the light of actual conditions and results. Making changes during a season in a merchandising plan does not necessarily indicate a weakness in the plan. The budget, or plan, represents an attempt to forecast future conditions for a period of six months[2] ahead and to plan the merchandise activities accordingly It is only natural that, as the beginning of each month approaches, these conditions can be seen more accurately; therefore the planned figures should be adjusted in accordance with actual results to date and in the light of the more accurate information available regarding the balance of the season.

Adjustments in the merchandise plan are made month by month as the season advances. A few stores divide their budgets by weeks rather than by months and so can make readjustments more frequently. The average store, however, uses a month as the unit of measurement, feeling that a week is too short a period for economical control. After a merchandise budget has been worked out, it must be followed and checked throughout the season to see that actual results come up to the planned results. Month by month the actual figures to date can be checked against the planned figures and also against the results of the previous year.

Elements of a Merchandise Budget.—The essential figures to be planned in the merchandise plan are: (1) sales; (2) stocks; (3) markdowns; (4) initial markup; (5) purchases.

In addition to these essential elements, the merchandise plan may also include other goals or standards, such as planned or estimated figures for inventory shortages, cash discounts, altera-

[1] This brief discussion is intended merely as suggestive of the general planning procedure. The exact procedure would vary in different stores because of differences in the store organization and other factors.

[2] On the assumption, of course, that the store operates on a six months' plan.

tion costs, and those expenses which are closely related to the planned sales, particularly the selling pay roll and advertising expense.

Planned Sales.—In working out a merchandise plan the first thing to be considered is the volume of sales that can be expected for the period under consideration. The planning of the sales volume is of fundamental importance, for the other planned figures largely are based upon the expected sales or revenue Among the more important factors to be considered in determining planned sales are. (1) sales of the corresponding period in the past year; (2) rate of growth of a department's or store's sales; (3) business conditions; (4) change in price level, (5) changes in competition; (6) fashion factors; (7) conditions within the store or department.

Past sales usually are taken as a basis for estimating future sales Some stores take the sales figure of the previous year; others feel that it is better to take an average of the sales for several past years, for the past year may not have been an average or a typical year. For example, the weather conditions last year may have caused the sales for a particular month to be abnormally low. If planned sales for that same month this year are based on last year's figures alone, they will not be so high as normal conditions would warrant. The influence of any unusually favorable or unfavorable year is lessened if the store uses an average of the sales of a particular month during a number of past years [1]

Another point that must be remembered in comparing the sales of a month with those of the same month in past years is that adjustments must be made for differences in the number of selling days in the month in different years. Consideration must also be given to the influence upon sales resulting from the fact that certain holidays or selling seasons come at different times in different years. For example, if Easter comes relatively early, the sales of clothing are likely to be planned at a lower figure because of the greater possibility of bad Easter weather. The date of Easter also affects the relative proportion of the total spring-season sales that should be planned for the various months of the season.

[1] The number of years that should be averaged to get a fairly representative figure will vary in different cases.

The long-time rate of growth or decline in the sales of a department or store should be considered in planning the expected future sales. By looking over the sales records of the past few years the average rate of growth can be found. If the sales for a particular month (June, for example) have been increasing approximately 5 per cent a year, it may be wise to plan a 5 per cent increase in the sales figure for the coming June. However, it may be wise to modify this rate of increase in view of other considerations; for example, if the sales for the month of June during the past two years have increased each year by only 3 per cent rather than by 5 per cent, the average rate for all the years in the longer period of time, it would seem best not to plan for the 5 per cent increase.

The current or prospective general business conditions may make it necessary to plan a sales figure entirely out of line with the ordinary rate of growth of sales volume. For example, a period of business recession means that many customers will have less income with which to buy the goods offered by the retailer. Also, the psychological effects of the business conditions on consumer spending must be considered. During a severe depression, even people who have money fear to spend it because of the uncertainty of their future financial condition. When they become hopeful of better business conditions, they are more willing to spend money, and thus their purchases may increase even though their actual income has not yet become greater.

A change in the general level of prices will change the dollar volume of sales. When the price of a suit of clothes has dropped from $45 one season to $40 the next season, the change will mean a drop of $1,000 in dollar sales figures on a volume of 200 suits. To reach the same sales figure in the second year the department must sell 225 suits instead of 200 suits. If the price change was in the other direction, that is, if the price of a suit rose from $45 to $50, the department could obtain the same dollar sales volume during the second season by selling 180 suits as was obtained during the previous season by selling 200 suits at the lower price.

A change in the competitive situation may influence planned sales. The opening of a new store may lower the normal increase in planned sales. At times, other stores may show signs of less vigorous merchandising or may be retrenching for financial

reasons; if such is the case, the lessened competition may justify greater planned sales.

Fashion factors frequently have a decided influence on the amount of planned sales. For example, the development of a novelty article as a vogue during a particular season may result in an unusually large increase in sales in the department handling that merchandise. After this vogue has passed, in planning the sales volume for the coming season, the department should not be expected to show an increase over the sales for the previous season.

Any changes in conditions within the store or department must be considered in planning a reasonable sales figure for a period Are there important changes in the promotional plans? For instance, if the store or department had a big sale during October last year but does not expect to have such a sale during the same month this year, that fact must be kept in mind in planning the probable sales volume for the fall season, as well as for the month of October. Or are changes planned in the area of space occupied, in the layout of the present space, or in the merchandise lines handled? A consideration of such questions is essential in the planning of a proper sales figure.

Planned Stocks.—The amount of stock necessary to maintain the planned volume of sales must be determined so that the department or store will have a stock adequate to meet customer demand but not so large as to require the investment of an unnecessarily large amount of capital Thus, stocks are planned with two primary purposes in view: (1) to maintain adequate assortments; (2) to regulate stocks in relation to sales so as to obtain a satisfactory turnover of the merchandise stocks.

The planning of stocks so as to have adequate stocks at all times is of basic importance. The planning of high, or large, stocks does not result necessarily in adequate assortments, for the large investment in stock may be poorly divided among the various items Neither does the planning of adequate stocks mean that stocks are to be set at the same figure during the whole season or period; the dollar amount of stock that is necessary to provide adequate customer selection at the peak of a selling season may be much more than is necessary late in the season.

The planning of an adequate assortment requires: (1) the determination of the merchandise breakdowns, such as price lines,

materials, types, colors, and sizes, that are of significance to the customer; (2) the estimation of the physical quantity in each breakdown that is necessary to meet the anticipated customer demand.[1] The amount of stock that will be adequate to maintain the planned volume of sales will vary with such factors as the type of merchandise, the time element of delivery, and the amount of competition facing the store. An adequate stock is one that is planned so as to be reasonably complete from the viewpoint of the customer.

The planning of stocks from the viewpoint of turnover involves apportioning merchandise so that the average stock on hand during a season or month in the season will have a certain relationship to the sales for the same period. For example, if a turnover of 3 is desired for the fall season in a particular department, the stocks are planned in amounts that will give an average retail-stock figure that is one-third of the planned sales figure.[2]

Ordinarily, the same rate of turnover should not be planned for each month of the planned period. The monthly stock fluctuations, as a rule, should not be so great as those in monthly sales; thus, in a month of large planned sales a larger turnover should be obtained than in a month of small volume. For instance, suppose a buyer plans a stock turnover of 3 in his department during the spring season. This might be obtained by planning a turnover of ½ during each of the six months in the season, which would mean that the average retail stock during the first month should be twice the sales for the month. However, during the first month of the season a stock twice as large as the planned sales may not be large enough for an adequate assortment, whereas in a later month during the peak of the selling season an average retail stock twice as large as the monthly sales may mean a larger investment in merchandise than is necessary to obtain the planned sales.

The planning of stocks with respect to monthly turnover helps the merchant or buyer determine average stocks in a desired

[1] The control of stocks in terms of physical units, or unit control, is discussed in Chap XIII.

[2] Some controllers have attempted to work out, in formula form, mathematical relationships between monthly sales and stocks For examples of such equations used in connection with stock planning, see John W Wingate and Norris A. Brisco, *Elements of Retail Merchandising*, p 203, Prentice-Hall, Inc., 1938.

proportion to planned sales; but it does not aid the buyer or retailer in determining the amount that should be on hand at a particular time during a month, except within broad limits. A buyer may know that he wishes an average monthly retail stock of \$10,000, but that average stock figure may be an average of a beginning stock of \$10,000 and a closing stock of \$10,000, or a beginning stock of \$16,000 and a closing stock of \$4,000, or some other combination.[1] Thus the obvious weakness of the rate of stock turn as a tool for use in planning stocks is that it summarizes only the relationship between sales and the *average stock* for a period and does not give the relationship between sales for the period and the stock at a particular time. For example, it does not offer a basis for planning the specific amount of stock that should be on hand at the beginning of a period in view of the sales planned for that period.

The development of stock-sales ratios is an attempt to find a method of determining from planned sales for a month the stock that should be on hand at a particular time in the month.[2] The stock-sales ratio is the ratio between the stock on hand at a particular time during the period and the sales for the period; it is determined by the following equation[3]:

$$\text{Stock-sales ratio} = \frac{\text{retail stock at a given time in the period}}{\text{sales for the period}}$$

The stock-sales ratio is ordinarily a beginning-of-the-month (B O.M.) or end-of-the-month (E O.M.) ratio; of these two, the B.O.M. stock-sales ratio is more commonly used

From past experience, many stores can determine stock-sales ratios for each month. There are also groups of stores that exchange monthly data regarding the sales and stocks of each department. Thus, standard stock-sales ratios can be determined that provide for each store a standard by which to evaluate its own experience.[4] With stock-sales ratios available, the

[1] On the assumption that the average stock for the month is determined by averaging the beginning and closing inventories

[2] Stock-sales ratio could be used in connection with any length period.

[3] The stock-sales ratio is not the reciprocal of the stock-turnover ratio, for the numerator represents the stock at a given time in the period, never the average stock for the period.

[4] In 1938 the Controllers' Congress of the N.R.D G.A. published a study on

planned stock can be determined by multiplying the planned sales for a month by the stock-sales ratio. For example, suppose that the past experience of a store has shown that the B.O.M stock-sales ratio for the month of June in a particular department should be 2, that is, the retail stock on hand at the beginning of the month should be twice the amount of the total sales for the month. If the planned sales figure for June is $5,000, the planned B O M stock should be $10,000. Obviously, other factors, such as unusual conditions in the department, may make it necessary to adjust this $10,000 amount.

A buyer of fashion goods may outline a selling calendar as another guide in determining the planned stocks. This will assist him in estimating both planned sales for the month and planned stocks for the first of the month. It will include for seasonal or fashion merchandise the following: (1) period of sampling, or first showing; (2) opening of season; (3) period of mass selling; (4) close, or end, of season During the period of sampling, there is only enough merchandise bought to get the public's reaction to new styles. In this way the buyer judges what may "take" and what may not. The "opening" calls for complete stocks with emphasis on the higher priced numbers. Before the close of the period of mass selling, the buyer will be cutting down on the size of his stocks.

Planned Markdowns.—A markdown is a reduction in the retail price of merchandise. The term *markdown* does not cover discounts given to employees or customers, nor are inventory shortages included. Markdowns, discounts to customers and employees, and inventory shortages are all grouped under the term "reductions." Although in the merchandise budgets of some stores all reductions may be estimated or planned, they ordinarily consist largely of markdowns. Thus in the following discussion the term markdown is used rather than the broader term reduction

When markdowns are expressed in percentages, they are customarily stated in terms of net sales. The determination of the markdown percentage for a department or store as a whole

department monthly stock-sales ratios of department and specialty stores The data, covering 1937, were compiled from representative stores throughout the country See Carl N Schmalz, "Congress' Stock-sales Ratio Study Reviewed—and Found Practical," *Retailing* (executive ed) Oct. 3, 1938, p. 6.

may be illustrated as follows: The retail inventory on May 1 is \$12,000; during the month, markdowns of \$800 are taken, reducing the retail value to \$11,200. If the sales during May are \$8,000, then the percentage of markdowns for May is \$800 divided by \$8,000, or 10 per cent; thus the markdowns are expressed as a percentage of sales rather than as a percentage of the original selling price of the stock marked down. To illustrate the determination of the percentage of markdown on a single item, suppose an article originally priced at \$1.50 is marked down to \$1 and sold at that price. The markdown percentage is 50 per cent, that is, \$0 50 divided by the sales price of \$1. If the markdown were stated in terms of the original retail price, it would be 33.33 per cent, that is, \$0.50 divided by \$1 50.

As markdowns are planned as a percentage of net sales but are actually taken on the original retail prices, the retailer may wish to determine how much of a markdown should be taken on the original retail price in order to obtain a given markdown in terms of net sales. For example, suppose a retailer has an article priced at \$2 on which he wishes to take a markdown that will amount to 10 per cent of the sales price. Clearly, he cannot take the 10 per cent off the original price and get the desired result. He can translate the 10 per cent in terms of sales into terms of original retail price as follows:

$$\begin{aligned} \text{Let } 100\% &= \text{sales price} \\ \text{Markdown} &= 10\% \text{ of sales price} \\ 100\% + 10\% &= 110\% = \text{the original retail price} \\ \frac{10\%}{110\%} &= 9\ 09\%, \text{ the proper markdown in terms of the original retail price on the article} \end{aligned}$$

Proof: 9.09% of $\$2 = \$0.1818$. $\$2 - \$0.182 = \$1.818$, the sales price

$$\frac{\$0.1818}{\$1.818} = 10\%, \text{ the markdown in terms of sales}$$

The above method of converting markdowns to a percentage of original retail price can be summarized in formula form as follows:

$$\frac{\text{Markdowns as } \% \text{ of sales}}{100\% + \text{markdowns as } \% \text{ of sales}} = \text{Markdowns as } \% \text{ of original retail price}$$

The opposite of the above procedure, that is, the converting of a markdown percentage taken off original retail price into a percentage of sales, can be reduced to the following formula:

$$\frac{\text{Markdowns as \% of original retail price}}{100\% - \text{markdowns as \% of original retail price}} = \text{markdowns as \% of sales}$$

Substituting in this equation the 9.09 per cent markdown in terms of the original retail price (worked out in the above example), we get

$$\frac{9.09\%}{100\% - 9.09\%} = 10\%, \text{ markdowns as a percentage of sales}$$

In the past, many store executives have considered it unnecessary to plan markdowns, feeling that it was best just to take markdowns whenever they became necessary because of slow-moving merchandise, soiled merchandise, special sales, or other reasons. However, those merchants who have attempted to plan definitely their merchandising activities have found that a reduction in the amount of markdowns offers one of the best means of increasing the net-profit figure for the store. The careful planning of markdowns helps to bring about a reduction in the amount of markdowns in at least two ways: (1) The study of the reasons for markdowns often suggests certain ways of eliminating or reducing the frequency of certain causes. (2) By planning the markdowns, the buyer or merchant will take them more promptly, and as a result the amount of markdowns necessary to move the merchandise may be smaller.[1] The planning of markdowns also is of help in that it gives more definite information for use in the determination of initial markup. Unless a merchant allows for markdowns in his estimating of the desirable initial markup, he has little chance of obtaining a satisfactory gross margin.[2]

The starting point in the budgeting and planning of markdowns is the study of the reasons for markdowns. An attempt to decrease them by simply planning a lower percentage than the

[1] For an interesting treatment of possible criticism of markdown planning, see Harold A. Baker, *Principles of Retail Merchandising*, p. 401, McGraw-Hill Book Company, Inc., 1939

[2] See discussion of "Planned Initial Markup" in this chapter.

preceding year, without knowing the causes of the previous markdowns, is worthless and in some cases may actually be detrimental to other store plans. Unless the buyer or merchant knows what to avoid, there is very little likelihood that he will avoid the causes that brought about the earlier markdowns. And if the planned markdowns are placed at a low figure that the buyer will be unable to meet because of his lack of information, the planned initial markup and planned purchases and any other figures affected by planned markdowns will be inaccurate, at least to the extent of the inaccuracy in the planned-markdown figure

The causes and the relative importance of the causes of markdowns vary among different classes of merchandise and in different stores. The relative importance of causes also varies according to the method of measuring the extent of the markdowns. For example, a certain cause might account for the largest number of markdowns in a store, but the total value of the markdowns might be less than the total value of the markdowns resulting from some other cause.

In stores operating on the retail method of inventory, a record of the amount of markdowns and the reasons for them is kept as an essential part of the information necessary for operation of the method.[1] Thus, markdown data are available for analysis and study which may lead to the elimination or minimizing of some of the basic reasons for markdowns.[2] Although in stores operating on the cost method of inventory a record of the amount of markdowns is not needed for use in determining the operating results for a period, the merchant in many cases will find it advisable to record markdowns in order to have a better factual basis upon which to plan and control his merchandising activities. If the reasons for and the amount of the markdowns are tabulated by the merchant as these are taken, he has the proper basis for planning a smaller markdown figure and for adopting corrective measures that will facilitate obtaining the planned figures.

[1] See discussion of the retail method of inventory in Chap. XV.

[2] The N R.D G A has issued a manual that lists the reasons for markdowns with an explanation of what markdowns should be attributed to each reason. This manual aids a merchant in classifying markdowns according to the reasons for these markdowns, thus giving him a sound basis for attempting to reduce them This uniform classification also makes possible interstore comparisons of markdowns due to these causes.

With past experience as a basis, the buyer or merchant plans the markdown budget The actual percentage of markdowns planned varies with different lines of merchandise[1] and different months or seasons. The markdown figure, built up more or less as an average or normal amount on the basis of past experience, must be modified in view of any present conditions or likely future conditions that are apt to affect the amount of markdowns in the coming season. For example, the buyer may have originally priced some of the merchandise on hand at entirely too high a figure, and thus it must be marked down during the coming period to the price that it should have had in the beginning. If certain merchandise has been purchased in amounts that exceed customer demand, it may be necessary to reduce the price to stimulate the demand sufficiently to clear out this merchandise. A change in a fashion or fad may necessitate sudden price reductions in order to sell the particular merchandise before all the demand for it has passed. A change in the price level may force the merchant or buyer to take markdowns if he is to keep his prices in line with his competitors'. As nearly as possible, the buyer, in determining the planned markdowns for a season, must consider and evaluate the possible effect that all these conditions and contingencies either will or may have upon the amount of necessary markdowns.

Although the markdowns will be stated as a percentage of sales for the season, that does not mean necessarily that markdowns and sales will be in the same proportion during each of the months of the season. That is, if one-fifth of the season's sales are made during April, it does not necessarily follow that one-fifth of the season's markdowns will be taken during that month. Rather, they will be distributed during the season in such a manner as to offer the greatest stimulation to sales and profits.

As an example, the planned sales for a season may total $100,000 with planned markdowns estimated at $7,000 (7 per cent of sales). It might be thought best to take no markdowns during the first two months while the merchandise is still fresh and the season so little advanced. The third month, some of

[1] For information regarding markdown percentages in different lines of merchandise, see *Departmental Merchandising and Operating Results of Department Stores and Specialty Stores*, Controllers' Congress, National Retail Dry Goods Association, published annually

the slower moving items might be reduced although the total sales might be higher in this month than in any other month during the season The greatest reductions would come during the last month when the department was trying to close out the season's stock and make room for the incoming merchandise of the next season. The following table shows a possible division of the markdown percentage by months and permits a comparison with monthly sales:

Months	Markdowns, per cent*	Markdowns, dollars	Sales
February	None	. .	5,000
March	None	.	16,500
April	8	560	36,000
May	25	1,750	25,000
June	25	1,750	7,500
July	42	2,940	10,000

* Of the season total

Planned Initial Markup.[1]—The initial markup for a department or store is the difference between the cost and retail value of the total merchandise handled in that department or store For example, suppose a store has the following inventory and purchases during the spring season:

	Cost	Retail	Initial markup
Beginning inventory	$20,000	$30,000	
Purchases	52,500	95,000	
Total merchandise handled	$72,500	$125,000	$52,500

The amount of initial markup in dollars is $52,500. When stated as a percentage, initial markup is expressed in terms of the

[1] Sometimes called "purchase markup," although, strictly speaking, purchase markup is the difference between the cost and retail value of purchases made during a period, whereas initial markup applies to the difference between the cost and retail values of the total merchandise handled (including opening inventory as well as purchases for the period)

retail value; thus the percentage in this case is \$52,500 divided by \$125,000, which amounts to 42 per cent.

The planning of initial markup involves the determination of the amount of initial markup requred to realize the net profit desired by the store or department. This difference between the cost and the original retail price of the total merchandise handled should be large enough to cover the estimated expenses and the planned reductions (including markdowns, inventory shortages, and discounts to customers and employees) and still leave the desired net profit.

In order to illustrate the planning of the initial markup, let us assume the following facts: In a men's furnishings department, expenses for the spring season are estimated at 25 per cent of planned sales. Markdowns are planned at 5 per cent and inventory shortages at 1 per cent. The planned sales for the season are \$4,000. If the buyer wishes a net profit of 6 per cent for the season, what initial markup, in dollars and in percentage, should be planned for the season? As the percentages are in terms of planned sales, it can readily be determined that \$1,000 (25 per cent of \$4,000) must be provided for expenses, \$200 for markdowns, \$40 for inventory shortages, and \$240 for net profit. It is necessary, therefore, to plan an initial markup of \$1,480.

But how is this initial markup of \$1,480 to be expressed in terms of the original retail price? The initial retail value can be obtained by adding to the sales the amount of the reductions (markdowns and shortages); thus

$$\$4{,}000 + \$200 + \$40 = \$4{,}240$$

the original retail value. Then, by dividing the initial markup of \$1,480 by \$4,240 the initial markup is found to be 34 9 per cent.

The above method of determining the planned initial markup percentage can be expressed as a formula as follows[1]:

$$\text{Initial markup } \% = \frac{\text{expenses} + \text{reductions} + \text{profits}}{\text{sales} + \text{reductions}}$$

[1] This equation can also be written as follows:

$$\text{Initial markup } \% = \frac{\text{gross margin} + \text{reductions} + \text{alteration costs} - \text{cash discounts}}{\text{sales} + \text{reductions}}$$

This equation can be used by substituting either the dollar figures or the percentage figures for all the items. When the percentage figures are used, sales equals 100 per cent. In the above problem the percentage of initial markup may be determined directly from the percentage figures as follows:

$$\frac{25\% + 5\% + 1\% + 6\%}{100\% + 5\% + 1\%} = 34.9\%$$

The information on the items involved in the determination of the initial markup is obtained from the past experience of the store or department and from the planned operations for the coming season (These planned operations are based to a considerable extent on past experiences.) The planned sales and planned markdowns are already available, for they have been planned as definite parts of the merchandise plan. The other items such as expenses and inventory shortages may be included as a definite part of the plan; if not, estimates will be made for them on the basis of past experience, modified in view of any changed conditions.

After the initial markup for the season and the individual months has been carefully planned, the buyer or merchant should make a real effort to obtain it. For example, if a report during a month shows that the actual markup to date is less than the planned figure, the buyer should determine how much higher the markup on the additional purchases for the period must be in order to obtain the desired initial markup.[1]

Planned Purchases.—One object of the merchandise budget is to assist the buyer in making purchases. The chief purpose of the purchase-planning and control part of the merchandise plan is to assist the buyer in making the purchases at the proper time and in the correct amounts so that the stocks of the store or department will be kept at the desired level in relation to sales.

The planned-purchases figure is determined directly from the planned figures for sales and markdowns (and any other "reductions") and the planned stock for the beginning and close of the period. The method of calculating planned purchases can be shown in formula form as follows:[2]

[1] There might be new conditions arising that would make it desirable to modify the planned-initial-markup figure

[2] This formula can be stated in slightly different form as: Planned pur-

Planned purchases = planned sales + planned markdowns (and other "reductions")
$\left\{\begin{array}{l} + \text{ increase} \\ - \text{ decrease} \end{array}\right\}$ in planned stock during the period

To illustrate the method of deriving planned purchases, assume that a department has planned sales for May of $10,200 and planned markdowns of $300 [1] The planned stock for the first of May is $40,500 and for the first of June is $36,000; thus, a decrease of $4,500 is planned in stock during the month. By substituting in the equation given above, the planned-purchases amount is obtained as follows:

Planned purchases = $10,200 + $300 − $4,500 = $6,000, the planned purchases for May

The above method gives the planned purchases at retail, or, in other words, the retail value of the merchandise that can be brought into stock during the period specified. The planned purchases at cost can be determined by multiplying the retail planned purchases by the complement of the planned-initial-markup percentage, that is, by 100 per cent − initial markup percentage. If the planned purchases at retail were $6,000 and the planned initial markup 40 per cent, the planned purchases at cost would be determined as follows: 100% − 40% = 60%, the complement of the initial markup. Sixty per cent of $6,000 (or 0.60 × $6,000) = $3,600, the planned purchases at cost.

As the season advances and actual figures are computed for the activities of the store to date, these actual results can be checked against the planned figures to see how nearly the store is living up to its planned items. Then the planned purchases for the rest of the season can be adjusted in view of what actually has happened thus far during the season. For example, if sales have been larger than planned, greater purchases than planned must be made during the balance of the season to keep the inventory at the level set in the merchandise plan.[2] If, on

chases = planned sales + planned markdowns (and other "reductions") + planned closing stock − planned opening stock.

[1] Other reductions might also be considered, but markdowns are usually the most important item among reductions, and so the term "markdowns" is used here rather than the broader term of "reductions"

[2] On the assumption that no other changes offset the effect of this change in sales.

the other hand, sales have fallen below the planned figures, the amount to be purchased should be decreased.

To illustrate the method of adjusting planned purchases, let us assume that a certain department has planned purchases at retail for October of $14,300. As should be clear from the discussion above, one item taken into account in setting this planned-purchases amount is the planned opening stock for October. Any difference between planned figures and the actual results in September will result in the actual inventory carried over into October being greater or less than the planned opening stock for October. Thus an adjustment must be made in the October planned purchases in order to keep the inventory at the level set in the planned figures. For example, suppose that the planned figures and the actual results for September were as follows:

Planned stock at retail, Sept 1	$20,000
Actual stock at retail, Sept 1	21,000
Planned sales, September	12,000
Actual sales, September	8,000
Planned purchases at retail, September	12,500
Actual purchases at retail, September	10,000
Planned markdowns, September	900
Actual markdowns, September	1,100

The adjustment that is necessary in the October purchases as a result of the variations between planned and actual results in September can be determined as follows:

		Actual		Planned
Stock at retail, Sept 1		$21,000		$20,000
Purchases at retail, September		10,000		12,500
Total goods handled		$31,000		$32,500
Sales, September	$8,000		$12,000	
Markdowns, September	1,100		900	
Sales and markdowns		9,100		12,900
Stock, Oct. 1 (September closing stock)		$21,900		$19,600

$21,900 (actual stock) − $19,600 (planned stock) = $2,300, overstock

Planned purchases, October	$14,300
Overstock, Oct 1	2,300
Adjusted planned purchases at retail for October	$12,000

Open-to-buy.—This term refers to the amount of merchandise that the buyer or merchant may order for delivery during the

to-buy is the amount by which the adjusted planned purchases exceed the outstanding orders (including merchandise in transit) for delivery during the period. If the buyer is computing the open-to-buy at a certain time in a period, he subtracts from the adjusted planned purchases for the month the total of all merchandise received so far during the period and all merchandise that has been ordered for delivery before the end of the period.

On Oct. 15 a buyer may want to know how much he can buy during the rest of the month. The merchandise plan shows that the adjusted planned purchases for October amount to $8,500. The store's records show that between Oct. 1 and Oct. 15 the department has received $4,100 worth of new merchandise, that invoices have been received for merchandise valued at $900 which has not yet arrived, and that there is on order for delivery, during October, $350 worth of merchandise for which invoices have not been received. To get his open-to-buy for the rest of October, the buyer will add the $4,100 (merchandise received), the $900 (merchandise in transit), and the $350 (merchandise on order for October delivery) and subtract this total sum of $5,350 from the adjusted-planned-purchases figure of $8,500; this leaves an open-to-buy figure of $3,150. This open-to-buy figure at retail can be reduced to cost by multiplying it by the complement of the planned initial markup [1]

In contrast to the above method in which the open-to-buy control is based on the predetermined planned purchases, the open-to-buy may be determined by figuring back from the planned closing stock. For example, suppose that on June 10 the buyer wishes to compute the open-to-buy, and he has or can secure the following information:

Planned stock at end of June	$25,000
Planned sales for June 10–30	8,000
Planned markdowns for June 10–30	1,500
Actual stock on hand, June 10	21,000
Goods on order June 10 for delivery during June	3,000

[1] Many stores prefer to show the commitments to date and open-to-buy figures at cost. In such cases, the planned-purchases figure is reduced to cost (in the manner previously explained) so that when the total commitments to date on a cost basis are deducted the result is the open-to-buy at cost.

To determine the open-to-buy, the buyer adds the planned closing stock of $25,000, the planned sales for the balance of the period of $8,000, and the planned markdowns for the balance of the month of $1,500 to get a total of $34,500. From this sum, he subtracts the actual stock on hand June 10, $21,000, and the outstanding orders of $3,000 (a total of $24,000), which leaves an open-to-buy figure of $10,500, at retail.

The merchandise plan gives a buyer at the first of each month a certain sum with which he may purchase merchandise during the month. It ordinarily does not distribute this planned-purchases figure throughout the month for him. So far as the plan is concerned he can spend it the first day of the month, save it all for merchandise to be delivered the last day of the month, divide it equally for each day of the month, or apportion it in any other way he sees fit.[1]

The tendency is for him to use a large part of his buying allowance during the early part of the month. As a result, he will have reached his buying limits before the month is over. There is always a certain amount of fill-in merchandise that must be ordered to keep the stocks complete. There will also be the opportunity for ordering novelty merchandise ahead of one's competitors, which results in the customers' always finding something new and interesting in the offerings of the store. It is for such reasons as these that the buyer should distribute his purchases over the entire month in such a manner that he will always have some leeway in buying.

To prevent a department from exceeding its planned-purchases limit is one reason for requiring all purchase orders to be confirmed by the merchandise manager's office. The merchandise manager can prevent a buyer from exceeding his purchase limits by refusing to confirm any more orders. Because it is usually desirable to have some new merchandise continually coming into stock, the merchandise manager should warn a buyer early in the period that he is in danger of exceeding his limit if he does not slow up his rate of purchasing.

There are times when it becomes necessary for a buyer to purchase more than his plan will permit In such a case, he may look over his unfilled orders to see if there are any orders that can

[1] According to some merchandise plans, restrictions are placed upon the buyers' distribution of the planned-purchases amount.

be canceled. At times a shipper may "back-order" certain merchandise or ship only a portion of what was ordered. Unless the buyer has these balances canceled and deducted from his unfilled orders, they cause the actual open-to-buy amount to be understated. It is possible that some merchandise ordered for delivery this month might be redated for delivery during the next month, the buyer's open-to-buy being thus increased by that amount for the current month.

A method of obtaining permission for purchases over the buying limit would be to request the merchandise manager and the controller to make a change in some of the planned figures If during a given month the buyer's sales have thus far run ahead of planned sales, he can properly ask for an increase in the planned-sales figure, which will thus increase his open-to-buy. If he feels that the stock at the beginning of the next month should be larger than planned in order to take care of larger sales which seem probable during the month, he can ask for an increase in the planned-stock figure for the beginning of that month; this will also increase his open-to-buy for the present month.

Merchandise Plan Forms.—The forms used in connection with merchandise planning and control vary considerably in different stores. The following blank example shows a relatively simple form for recording the planned figures and the actual results for a six-month period.

In this form, space is provided for recording the results during the past year, planned figures for the current year, and the actual results during the current year. The five elements of sales, markdowns in dollars, retail stock (first of month), retail purchases, and initial markup in dollars are shown by months At the top of the form, there is space for recording in summary for the season the percentage of initial markup, the percentage of markdowns, the percentage of maintained markup, and the rate of turnover; for each of these items, last year's figures and the planned figures for this year can be shown Space is provided for showing the actual figures for this year after they are obtained.

Limitations to Merchandise Planning.—Some buyers object to merchandise planning because they feel that it limits their freedom. To the extent that it forces them to go about their merchandising in an orderly fashion, this is true, but merchandise

MERCHANDISE PLAN
Gilliatt Clothing Store

Dept. No. ______ ________ Season—194__

	Last Year	Plan	Result
Per cent of initial markup			
Per cent of markdowns			
Per cent of maintained markup			
Turnover (yearly rate)			

Spring season Fall season	Feb Aug.	March Sept	April Oct	May Nov	June Dec.	July Jan	
Sales Last year							Total
Planned, this year							
Actual							
Markdowns, dollars Last year							Total
Planned, this year							
Actual							
Retail stock, first of month Last year							End of season
Planned, this year							
Actual							
Retail purchases Last year							Total
Planned, this year							
Actual							
Initial markup, dollars Last year							Total
Planned, this year							
Actual							

planning does not eliminate judgment upon the part of the buyer The making of a merchandise budget and the monthly adjustments of these figures call for the exercise of judgment on the part of the buyer.

As previously pointed out, the buyer should have a part in the planning of the merchandising activities of his department. If he makes out his own merchandise budget for the season with the aid and advice of the merchandising manager and the controller, he will naturally understand it better and will be more willing to be guided by it. The average store sends the buyer frequent summaries and reports showing his progress to date. If these are to be of help to the buyer, they must be in such a form as will be easily understood.

Some merchants feel that their stores are too small to use merchandise planning profitably. No store is too small to plan its operations ahead In any store the careful planning of operations requires an analysis of past methods and results, which aids the merchant in avoiding past mistakes and in repeating successful methods. The merchandise plan requires the merchant to consider future operations and to set up certain standards of performance that will guide him in his efforts to obtain a satisfactory net profit. The real difference between the small store and the large store is not in the need for merchandise planning, but rather in the type of plan required.

Finally, it should be emphasized that merchandise-planning procedures, regardless of how elaborate they may be, are of value only if used In other words, merchandise *control* results from the *effective use* by the merchant in his merchandising activities of the data available through the merchandise-planning procedures.

CHAPTER XIII

STOCK CONTROL

Meaning of Control.—Stock control means the adoption and *use* of some form of record or system that will assist the merchant or buyer in keeping stocks adjusted to sales A stock-control system is simply an organized method of obtaining and recording the desired merchandising facts and information; this alone does not constitute control, but rather the basis of control. If the information obtained through the system is interpreted and translated into action that maintains a balanced assortment of merchandise, that is, the right quantity of each type of merchandise in relation to sales, the store has stock control

Types of Stock Control.—There are two basic types of control that the merchant uses to regulate his stock: dollar control, and unit control. The planning and control of stocks in terms of dollars constitute an essential part of the merchandise plan, or budget, as already described in Chap. XII Dollar-control information enables the retailer or store buyer to determine the amount of merchandise, in terms of dollars, that should be carried at particular times; thus the retailer can determine the amount of goods, in terms of dollars, that he is open to buy at any time.

Although a dollar-control system may show a retailer that he can purchase $3,000 worth of goods during a particular period, it does not provide him with a basis for determining how this $3,000 should be apportioned among specific items. His customers will come to his store not primarily to buy a certain number of dollars' worth of merchandise but rather to buy specific articles of certain sizes, colors, types, styles, or other specific characteristics. Thus, he must properly distribute the $3,000 of purchases among the detailed items making up his merchandise stock if he is to have a stock that is satisfactory from the standpoint of his customers. It is by means of unit control that the retailer may attempt to determine the specific items to be purchased.

Unit control is the control of stock in terms of pieces of merchandise rather than in terms of dollars.[1] Unit-control records show the merchant what types, sizes, styles, prices, and colors of merchandise have been selling well. This information helps him determine the relative importance of the different sizes, price lines, or other items by making it possible for him to compare the number sold in each size, price line, color, etc., with the total number of each group; this information aids him in adjusting or maintaining his stock of merchandise in line with customer wants. For example, if 17 per cent of the total number of men's dress shirts sold were size 14½ according to the unit-control figures, the buyer could use this information as a definite standard to go by in reordering. Many stores, especially the larger ones, use both dollar control and unit control, the one supplementing the other. It is unit control that tells whether or not the buyer is using to the best advantage the money that has been allotted to him by the dollar-control plan.[2] Unit control and the types of systems and records upon which such control is based will be discussed in this chapter

Advantages of Unit Control.—The use of a unit-control system leads to more profitable retailing because of certain advantages to be obtained from the use of such a system. These advantages may be summarized as follows:

1 It reveals the slow-selling merchandise. Such a system shows the number of each item sold and so automatically indicates those items that are not moving. Items that do not sell cannot bring in a profit and should be weeded out. No matter what the goods may be "worth," a profit cannot be realized from them until they are sold; thus, slow-selling merchandise means slow profits or none at all. Because a stock-control system reveals the slow-selling merchandise, it makes possible the placing

[1] The term "unit control" means simply control in terms of the physical pieces of the merchandise rather than in terms of the values; it does not signify necessarily that a record is kept of each piece of merchandise With some types of goods a separate card or record may be kept for each individual article, but in other cases the "unit" may be a dozen or some other amount.

[2] On the other hand, as pointed out in the discussion of the merchandise plan (Chap. XII), one of the factors determining the planned dollar stock is the amount considered necessary to provide an adequate assortment by styles, sizes, and the other essential characteristics of the merchandise.

of selling emphasis on the other items that are in demand and so are selling rapidly.

With the large number of different brands of the same type of article, it is not surprising that a store is inclined to carry a considerable number of them. A stock-control system frequently reveals that a very small percentage of the brands account for most of the sales. In such a case the less frequently called-for brands can be eliminated without much effect upon sales. As a rule, in the few cases where these brands are called for, one of the more popular brands can be substituted and any loss of sales prevented. Likewise, the unit-control records may show that many styles, colors, etc., are being carried for which there is very little demand. By decreasing the number of styles handled the store not only may lower expenses and increase stock-turn, but in addition may be able to increase total sales through the greater emphasis on the styles with a good demand.

2 Unit control reduces the capital investment in merchandise. By making it possible to weed out the slow-selling merchandise and the unnecessary colors, styles, and assortments, unit control releases money formerly tied up in such unprofitable items. Thus the store or department can carry on its business on a smaller capital investment without cutting down the sales. The merchant or buyer may prefer to reinvest this released capital in new merchandise that shows merit and that will increase the sales of the department. If this is done, the nonprofitable merchandise has been replaced by new merchandise that will sell and so add to the profits of the department or store.

3 A unit-control system is an aid in buying. Many a buyer has tried to keep in his mind a record of what has sold well and what has not, but with the great variety of merchandise that we have today such a method is seldom feasible. In almost all cases, written records will prove more practical. Because a buyer purchases by articles rather than by dollars' worth, he will want records to give him information by number of articles rather than by dollars alone *In placing an order*, he is more interested in knowing that last month the department sold 106 size 14½ shirts, 124 in size 15, etc., than he is in the fact that it sold $1,400 worth of shirts that month, valuable as the latter information may be for other purposes.

The unit-control records will show the retailer how the different sizes, styles, colors, price lines, etc., are selling. An analysis of this information may indicate changes in customer preferences that call for adjustments in the buying plans. Also, the information available may aid the merchant in determining desirable sources of merchandise. For example, information may be provided for an analysis of the rate of sale of goods received from different vendors. Or the list of the back orders on the different cards or other records may give the retailer a record of the kind of service given to him by different manufacturers and wholesalers.

4. A unit-control system helps to maintain a model stock It provides the information regarding the rate of sale of specific lines and items that is essential in any attempt to maintain a merchandise inventory properly proportioned to the salability of the goods. An adequate and well-balanced stock is essential if a store is not to lose sales through being "just out" of an item when a customer calls for it. Failure to have regular merchandise in stock involves not only a loss of sales but in addition a loss of store prestige. Also, the resulting rush orders from the store involve extra expenses (telegrams, express charges, etc.) that seriously lessen the anticipated profits on the merchandise.

Through experience a merchant can determine the minimum number of an item that, when reached, calls for reordering. The stock-control record will show when this minimum has been reached, and thus the goods can be reordered and placed in stock before the item is completely sold out. Conversely, a store may desire to place a maximum stock limit, which is the maximum number of the items necessary for normal sales. Having more stock on hand than is necessary results in inefficient use of the capital invested in the inventory, unproductive occupancy of space, extra costs in the handling of goods, and the probability of a larger amount of markdowns.

5. A unit-control system saves time for the executives by making readily available to them information that helps them in their merchandising. By looking over the stock-control records or a summary derived from these records, they can get information quickly that it would otherwise take some time to compile.

6. Unit control helps in the planning of sales. The stock-control system will show the store what will be suited for special sales and what items should be advertised. For example, if a store is planning a special sale similar to one held in a previous season or year, the unit-control records will answer or help in answering such questions as the following: What items were offered in the previous sale? What articles sold well? Is it wise to repeat these items? What items did not sell well? Were there any known reasons for the slow sale of these items?

Types of Unit-control System.—The type of unit-control system to be used in a store or department depends primarily upon three factors: (1) the type of merchandise that is being controlled; (2) the amount, type, and use of the information to be obtained by the system; (3) the cost of the various systems.[1] The system to be used in any instance is the one which is best suited to the merchandise for which it is intended and also the one from which the essential information in usable form is most readily obtained, provided that this system can be operated at a reasonable cost. Most unit-control systems can be classed according to one of two general types: (1) physical-inventory systems; (2) perpetual-inventory systems.

Physical-inventory Systems.—Under this type of system, no record is kept of the unit sales of a particular item at the time of sale. Information as to the stock of an item on hand is obtained by an actual count, and the sales for a period are a derived figure obtained as follows: Opening inventory + purchases − closing inventory (as shown by the physical count) = sales. This resultant figure called "sales" actually includes shortages as well as sales, for it is the total number of units by which the merchandise stock has been reduced during the period.

1. *Tickler control.* This plan is a commonly used form of the physical-inventory type of unit control. By this method the information regarding stock on hand is obtained by taking periodic inventories of the stock and entering the data on cards or sheets. These records are usually kept in a file so arranged that the stock is inventoried a portion at a time, which results in inventory of the entire stock over a regular period.[2] In some

[1] These factors are discussed later in this chapter.

[2] This file is known as a "tickler file" and the inventory as a "rotated inventory."

instances, those items or lines which sell more rapidly are inventoried more frequently than are the other parts of the stock.

At the time the stock of an item is counted, the retailer can determine the sales since the previous count by subtracting the present amount of the item from the total of the previous stock figure plus the purchases during the period between the inventories.

The tickler-control system is used particularly in the control of staple merchandise to help in determining the amount of the reorder. The retailer may indicate on the unit-control record for an item the maximum stock that should be carried.[1] Then, each time the item is inventoried, the difference between the maximum figure and the actual stock is reordered. For example, suppose that the maximum stock for the item is set at 16 pieces and the stock is counted every two weeks. If the stock on hand at the inventory is 7 pieces, then 9 are ordered

One of the chief weaknesses of the tickler-control method is that it does not provide a perpetual stock figure; thus the inventory and sales information are not available on a day-to-day basis but only at the time of a physical count Also, any difficulty in getting accurate stock counts weakens the information, for the system is dependent on the inventories. It is impossible to determine shortages under this method, for there is no book-inventory figure available for comparison with the physical count of an item.[2]

The chief advantages of the tickler-control type of unit control are its simplicity and economy of operation. It can be used with some success for any type of merchandise, except those goods in which the fashion element is important The stock counts, or inventories, are too infrequent to give current enough information on fashion trends, which may change daily. The tickler-control system is widely used in the control of staple merchandise and goods of low unit value for which no other type

[1] The determination of this amount requires an analysis of the rate of sale, the desirable reorder period; the delivery period, and the safety factor, that is, what additional amount is required to cover cases of unusual fluctuations in sales, or delays in the filling or delivery of an order

[2] The advantages and disadvantages discussed in connection with the tickler control may be considered as generally applicable to physical-inventory types of unit-control system.

of control is possible from a cost standpoint or for which the information desired does not warrant an expensive control.

2. *Other types of physical-inventory systems.* Other variations of the physical-inventory type of system are used by retailers In some instances, these may be little more than periodic examinations of the various items in stock. In other cases the stocks on hand may be compared with basic stock or assortment lists by the retailer as a means of preventing "outs" in items that are essential.

Another variation of the physical-inventory system is the minimum-control type. With this method the items are not inventoried periodically. Instead, a minimum stock quantity is determined for each item; and when the stock is reduced to that level, notice is sent to the buyer. A common plan is to mark the minimum-stock point in the stock itself by some physical means. For example, a card, a gummed label, or some other form of reminder is placed at the point in the stock at which the minimum amount is reached. When the stock is reduced to this level, the reminder card or label is removed and sent to the buyer as a guide for reordering.[1]

Perpetual-inventory Systems.[2]—In systems of this type the unit sales of the items are recorded. With the sales of an item available, the amount of the item on hand can be derived as follows: Opening inventory + purchases − sales = closing stock. As the sales figures are currently recorded, a perpetual inventory can be maintained by subtracting the sales in units from the total of the previous inventory (in units) plus the purchases (in units). Thus the basis of this type of system is the recording of sales with stock figures derived as shown above whereas the physical-inventory type of system, as already indicated, is based upon actual counts of the stock and the unit sales of an item is a derived figure.

The unit sales of merchandise items may be obtained by different methods; the method used in a particular form of perpetual-inventory system is usually indicated by the name given to it. The more common of these are sales-check control, stub control, and reserve-requisition control.

[1] These reminder cards should contain the necessary reorder information.
[2] Also called "sales-analysis" systems.

1. *Sales-check control.* When this method is used, the salesclerk at the time of a sale makes out a duplicate sales slip which contains the necessary stock-control information. Such information as number of items, size, color, type, and the retail price may be shown on the sales check. Either at the end of the day or at intervals during the day the duplicate sales checks are collected; and after they have been audited, the information on them is posted or recorded on the unit-control forms [1]

The chief disadvantages of obtaining the sales information for unit control from the sales check are as follows: (1) It takes time to record all the required information on the sales slip; thus the method uses up more of the time of the salesperson, the purchasing customer, and any prospective customers who are waiting for service. (2) There is the possibility that the salesperson, especially at rush time, may inaccurately record the information desired and so prevent accurate piece records.

2. *Stub control.* If the nature of the merchandise makes its use possible and practical, stub control is a more satisfactory method than sales-check control. Under the stub-control system, a perforated price ticket is used, each half of which contains the same information. When the article is sold, half of the ticket is torn or chopped off, and the information for the unit-control record is obtained from this stub of the price ticket.

The required information is printed or written on the price ticket when the goods are marked, and the salesperson simply tears or chops off the stub part of the ticket; thus the chance of error in recording information on the sales check is not present It also requires less of the salesperson's and customer's time. Also, since the portion of the ticket that remains on the merchandise usually is practically identical with the stub, it makes identification easy if the merchandise is returned.

With the stub system, a locked machine may be used to clip the stub from the rest of the price ticket. As the stub is clipped

[1] In some sales-check control systems, the sales information for the control record is obtained from the sales checks before the orders have been filled or the checks audited. This method, which is called *prior sales-check control*, is used primarily in departments where the delivery to the customers is made from stock in warehouses. With this system the sales checks are entered on the control records as soon as they are made out by salespeople, or at least at very short intervals during the day, this tends to make it an expensive type of control.

off, it drops into the locked box of the machine. The stock-control office has the key to these boxes and collects the stubs at intervals The stubs are then sorted according to the arrangement of the stock-control records. They may then be posted directly to the records or summarized on a separate sheet and then posted from this summary sheet.

3. *Reserve-requisition control.* With this type of control, no record is kept of the actual unit sales of an item on the selling floor. As the merchandise in forward stock needs replenishing, requisitions are made against the reserve stock. These requisitions, which show the quantity of an item withdrawn from reserve stock and sent to the selling floor, are considered as sales and are posted to the control records. This system is based on the assumption that the movement of goods from reserve stock to the selling floor is indicative of sales over the counter. Therefore, the stock figures shown on the control records represent reserve stock only, and the amounts requisitioned for the selling floor constitute the sales. A perpetual inventory of the reserve stock is maintained by adding to the previous inventory the number of pieces received and subtracting the number sent to the selling floor. As the amount of merchandise in reserve is always known and the requisitions are assumed to indicate the sales, the retailer has the information necessary as a guide in maintaining the reserve stocks at a level that will keep the selling floor supplied.

The reserve-requisition type of unit control is widely used for merchandise of which a relatively large number of items is carried and of which a large proportion is kept in reserve stock and requisitioned as needed [1] A basic stock is determined for the selling floor, and it is essential that this forward stock be replenished regularly, for otherwise requisitions for a period will not give a true indication of sales during that time interval. This system of unit control is ordinarily less expensive than either stub or sales-check control because it eliminates the process of recording the actual sales on the selling floor. It is simpler and less expensive to total the requisitions for a particular item than it is to obtain, by the sales-check or other method, the actual unit sales over the selling counter Thus the reserve-requisition type of perpetual-inventory unit control may be usable for some

[1] Toilet goods and drug items are examples.

items for which stub control or sales-check control would be impractical.

Evaluation of Perpetual-inventory Systems.—Many other variations of perpetual-inventory systems of unit control are used by different stores, but those described above should be sufficient to indicate the essential difference between this type and the physical-inventory systems. Perpetual-inventory systems provide day-by-day information on sales and stocks; thus, they provide data that are essential in the control of fashion merchandise. This type of system also furnishes a means of determining shortages, for the perpetual inventory, which shows what quantity of an item should be on hand, can be checked by an actual count of the stock.

However, the perpetual-inventory type of system is ordinarily more expensive and more complicated in operation than the physical-inventory systems. The perpetual-inventory systems are restricted largely to fashion merchandise and to merchandise with a unit price that is large enough to justify the cost of the method.[1] As already pointed out, the reserve-requisition type is more widely applicable from a cost standpoint than are the other perpetual-inventory systems because of the use of the total of requisitions as "sales."

How to Plan a Unit Stock Control.—The first step in planning a unit stock-control system is that of studying and classifying the merchandise. This is very important, for the type of merchandise usually is the primary consideration in the selection of a type of control. The study of the merchandise will involve a consideration of such factors as the fashion element, the physical characteristics, and the unit price of the articles, with special reference to the manner in which these characteristics of the goods affect the unit-control problem. For example, if the merchandise has considerable fashion element, the tickler-control

[1] A simple control system that is often practical for items of high unit price, such as furs, pianos, and expensive jewelry, is to prepare a separate card for each article When an article is received a card is made out for it showing the basic data, such as retail price, size, type, and material. The cards are filed in a "stock-on-hand" file. When the article is sold, the card is taken from the stock-on-hand file and the date sold, perhaps the name and address of the customer, and any other desired information are recorded on it, then it is filed in a "sold" file. Thus, at any time, one file shows the sales of the article and the other the stock on hand.

system probably is undesirable; or if the physical characteristics of the merchandise are such that a stub cannot be attached, the stub-control system may be out of the question; or if the articles are of low value, perhaps only tickler control or reserve-requisition control is practical from a cost standpoint.

The articles in the store should be classified into groups with similar characteristics from the standpoint of unit control. In the larger stores with departmental organizations, the type of unit control necessary may be planned according to departments. However, even in one department, there may be a need for the use of more than one type of unit control to meet the requirements of the different articles. Unit-control records can best be made use of when similar merchandise is grouped together, because the buyer or merchant can compare the results of the different groups. Also, by keeping unit-control records on a departmental or classification basis, they can be considered and discussed in connection with other store records or plans which are usually broken down according to groups of merchandise, selling departments, or classifications (subdivisions of departments)

The next step is to determine the amount and type of information the store desires to obtain from its unit-control system The collection of merchandising facts that are not needed or used adds unnecessarily to the cost. On the other hand, no information needed by the store should be omitted, provided it can be obtained without too great a cost. The question of the amount and type of information needed must be answered largely in terms of the major purposes of the control. What is it intended to do? What divisions or individuals in the store will use the information? What information, and in how much detail, is required in view of the purposes of the control and the parts of the store organization that will use it? It is only by careful consideration of these basic questions that the retailer can determine what information should be gathered.

The answers to the above questions are conditioned, naturally, by the merchandise to which the system is to be applied. A sound decision as to what constitutes pertinent merchandising facts for the unit control of particular merchandise can be reached only after careful study of the conditions under which the goods are obtained from vendors and under which they are sold. In deciding what comprises the essential information to be gathered,

the conditions of customer demand deserve the most attention. Without a study of the customer and the intensity of his preference for the variations in which the merchandise may be had, no intelligent decision can be made as to what facts are worth collecting and recording. For example, in men's shirts the customer preferences as to type (work, dress, sport, or formal dress shirt), size, style (collar attached or neckband), price, and sleeve length are of sufficient weight to warrant a definite unit-control system. In the case of shoes, the store or department may desire to obtain information on the following points: type (sport, evening, etc.), color, material, heel, size, price, and style number.

The following list suggests the types of information that may be collected and recorded in various unit-control systems.

1. Retail price of the item
2. Size
3. Color
4. Style
5. Material
6. Source
7. House lot number
8. Cost price of the item
9. Price changes
10. Number of items on hand
11. Number of items on order
12. Number of items received
13. Number sold
14. Merchandise returned by customers
15. Merchandise returned to manufacturers

The importance of the above points and the number of them recorded naturally vary according to the type of merchandise and the use made of the information. A department handling men's suits may buy all the suits in a particular price line from one manufacturer and so may not include the source as one type of information to be recorded. In one line of merchandise, style may be one of the basic merchandising facts to be recorded; in other goods, style may not be a factor.

The third step in planning a unit-control system is to determine whether or not the merchandising information and aid to be obtained from a particular system justify the cost of installing and operating the method. The information obtained from a good stock-control system would be of help to any department or store. This help, however, is a relative matter, for in some cases the costs of operation may more than balance the help given.

If the unit price of the articles is low and the number of transactions large, the cost of maintaining a unit control may be

prohibitive. In other cases, a store or department may be able to use a unit-control system but is restricted to a type or method that does not meet all its needs because that type is the only one that can be operated at a low enough cost. If a merchant can afford to collect and record only a few facts, he should be sure that those few are the ones of most significance to him in his merchandising plans;[1] then, as the capacity to add to them arises, the information of next importance should be added. Whether or not a unit-control system can be operated at a reasonable cost in relation to the merchandising aid available from it depends largely upon the extent to which the retailer has carefully determined (1) the purposes of the system, (2) the essential facts to be gathered in the light of these purposes, and (3) the simplest way of gathering and presenting effectively these basic facts

Introduction of the Unit-control System.—Because it may not be easy to change from one system to another, it is best to give careful thought in the beginning to the planning of the system. Likewise, the proper introduction of the unit control into the store is very important; for its success or failure, or at least its degree of success, often is determined to a large extent by the way in which it is put into use in the store.

Many stores have introduced unit control in only one department at first and then have gradually installed it in others. Or in small stores with little or no departmentalization a unit-control system may be applied first to two or three lines in which the store has a relatively heavy investment and then added gradually for other types of articles.[2] This method has these advantages: (1) Mistakes can be more easily rectified and a workable and efficient system evolved that can be more widely used in the store. (2) Demonstrating the success of the unit control in one department convinces the other departments of its worth. Because

[1] For example, in shirts, size and sleeve length are more important than pattern or color It may be easy to substitute another color or pattern, but size substitution rarely is possible.

[2] For example, in *Hardware Retailing*, p. 153, National Retail Hardware Association, Indianapolis, Indiana, the following are suggested as the hardware-store lines that might be given early attention during the introduction of unit control. house paints, enamels, lacquers, enamelware, aluminum ware, lawn mowers, steel goods, screen wire, fencing, stoves, electric refrigerators, and electric washers

there may be opposition to stock control on the part of buyers, it may be best to let the control system prove its value in a few departments before it is widely adopted. (3) The gradual introduction of unit control helps to prevent its application to departments or merchandise lines for which it may not be desirable from a cost standpoint. A unit-control system should be applied to additional lines or departments only as it is determined with reasonable accuracy that the value of the information to be obtained will overbalance the costs involved.

Some stores experiment with a system before permanently installing it. The temporary forms are mimeographed or multigraphed, and then changes are made in them as adjustments are shown to be desirable. This eliminates the necessity of scrapping an expensive system installed before the store or department knew what was best. The system that will prove successful in one line of merchandise may not succeed in another because of a difference in the nature of the goods and the information sought. As an example, a stock-control system used for furniture probably would not be suited to a notions department. Thus a store must work out different systems to fit the needs of its different types of merchandise

After a system has been permanently installed and in use for some time, its operation should be reviewed so that any difficulties may be corrected This review may reveal, for example, that the system is not properly understood by some individuals handling parts of the work connected with it; thus, they are making errors that seriously lessen the value of the entire method.

Form of Unit-control Records.—The form and general arrangement of the control records are determined largely by the amount and kind of information collected. Thus the decision as to the information to be gathered provides the basis for the selection of suitable unit-control forms. A store may work out its own form, get one already devised by a trade association or a vendor, or buy one from a manufacturer of such supplies.[1]

The unit-control records may be maintained on cards or sheets, in columnar books, on visible index cards, or in various other forms. A common arrangement of the control record is to have

[1] Planning such forms is a part of the work of the salesmen of these manufacturers.

spaces or columns for day-to-day conditions of the stock.[1] Across the top of the card or page may be shown the days of the month, and down the left-hand side are spaces for "on order," "received," "sales," and "on hand." Some cards have space for only one month; others provide for a season by listing the months, also, down the left-hand column Other stock-record cards show columns across the top for colors with spaces on the left-hand side for price lines. Many other arrangements of stock records are used. The arrangement should be designed with the idea of obtaining economical recording of the merchandise facts in a form convenient for use.

Some stores keep these records in a regular card file. Such a system is very flexible. Any change in the general arrangement can easily be made, such as removing a card for a closed-out item or changing a card to another location in the file. However, there is a chance of a card's being removed from the file and lost. Another method is to use either a loose-leaf or a bound ledger

Where reference is frequently being made to stock records, some form of visible index system may be desirable These come in either card or book form and are so arranged that a portion of the card or sheet is always visible. In this way the desired record can be obtained quickly. The use of colored signals or flags attached to the forms also gives certain information at a glance. In one department a red flag attached to a card will indicate to the buyer that these goods are not selling rapidly A blue flag may mean that the minimum quantity has been reached and the buyer should reorder. One advantage of the visible index system is the saving in time both to the buyer using the system and to the clerk who does the posting on the forms. Another advantage is that there are no lost or misplaced records, for the cards or sheets are not removed from the file for posting.

Stock-control Card Illustrated.—On the next page there is reproduced one form of stock-control card that provides a perpetual inventory record of the merchandise. This gives a picture of the transactions day by day. At the upper left-hand corner is found the store's number for a particular item, a traveling bag, and its retail price. Next the name of the com-

[1] In physical-inventory systems, the stock amounts can be shown only at the times of the periodic inventories

Style No. 142		Price				Bought from						Article								Material					
		$7 50				The Trimpe Meckstroth Co.						Traveling bag								Black leather					
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17		26	27	28	29	30	31
Feb	Rec'd					1			18																
	O. H.	28							7																
	Sold	4	5	2	4	3	4		5																
	O O					18																			
Mar.	Rec'd																								
	O. H																								
	Sold																								
	O O																								
Apr	Rec'd																								
	O. H																								
	Sold																								
	O. O																								
May	Rec'd																								
	O. H																								
	Sold																								
	O. O																								
June	Rec'd																								
	O. H.																								
	Sold																								
	O O																								
July	Rec'd																								
	O H.																								
	Sold																								
	O. O.																								

pany from which the bag was purchased is shown. There follows the name of the article and a description of its material. Running across the top of the card are 31 columns, one for each of the days in the month. Down the left-hand side of the card are spaces for each of the six months of the season. For each month there are spaces to show the goods received, those on hand, the number sold, and the amount on order. A figure in red ink in the "received" space shows a return by a customer. When goods are received, they should be canceled in red ink in the "on order" space. The "on hand" space can be filled in each Monday. The use of red ink is indicated in this illustration by circling a figure

As shown on this card, there were 28 bags on hand on Monday morning, Feb. 1. There were 22 sold during that week. On Feb. 5, 1 bag was returned by a customer and 18 more were ordered On Monday morning, Feb. 8, there were only 7 bags on hand. During the day, 18 were received. It was at that time that the 18 shown in the "on order" column was canceled.

Records Necessary for Unit Control.—The records that are necessary to provide the information for unit control vary according to the type of control system and the amount of information used in the stock control. Information concerning the following items should be available if a stock-control system is to give a correct picture:

1. Orders of merchandise
2. Receipts of merchandise
3. Sales of merchandise[1]
4. Returns by customers
5. Returns to manufacturers
6. Price changes
7. Transfers of merchandise from one department to another

"On order" information will be secured either from the buyer's copy of the purchase order or from a duplicate copy of the order which is made especially for this purpose.

"Receipt of merchandise" information may be posted directly from the invoice after it has been checked against the actual merchandise and retailed by the buyer. Some stores make out

[1] In a physical-inventory system of stock control, such as the tickler control, the sales figures are not obtained directly, as they are in the perpetual-inventory systems, but instead are derived from the following equation: Previous stock + receipts for period − new stock = sales for period.

a receiving sheet as they check the incoming merchandise and then post the receipt of the goods on the control records from this sheet. A third practice is to make this entry directly from the articles[1] themselves as the buyer is inspecting the incoming merchandise This method is used at times because the invoice does not give sufficient information. Posting from the invoices has the advantages of taking less time than the use of a receiving sheet and of not requiring that the work be done on the selling floor, as may be the case when posting directly from the merchandise Its chief disadvantage is the possibility of delaying the movement of the invoice.

"Returns by customers" are in reality additions to stock and so should be included in a stock-control system. A record should be made of all such merchandise before it is replaced in stock and these returns should be posted daily

"Returns to manufacturers" are deductions from the stock on hand. Most stores have a special form to be filled out for such returns Postings can be made from this form. When an order or a portion of an order is canceled, that fact should be recorded, because otherwise the "on order" figure will be incorrect.

"Price changes" usually are markdowns. A record of all markdowns should be kept in a special book. The posting can be done either from this book or, if new price tickets are placed on the merchandise, from the old price tickets, which must carry, also, the new price

A record should also be kept of departmental transfers of merchandise. Such a transfer means a deduction from the stock of one department and an addition to the stock of another. This information can be placed on a transfer form and posted on the stock-control records from this form.

Inaccuracy in Unit Control.—It is only natural that inaccuracies will occur in the collection and recording of unit-control information If the deviations from the correct figures are small, they will not seriously lessen the worth of the records; however, a store should check such records and attempt to keep them as accurate as possible.

There are three main causes of inaccuracy in unit control: (1) failure to get all records; (2) failure to obtain complete and

[1] For example, such articles as garments.

correct information on records; (3) inaccuracy in the posting of records or other clerical work. The first cause is probably the most easily corrected. The person in charge of the unit control must be certain that he knows the store systems[1] and routine for records well enough to be sure no records that are essential in unit control are omitted because of exceptions or irregularities in the normal procedures. It is best ordinarily to build the routine of the unit-control system around the basic store systems rather than to try to rebuild the store routines to meet the unit-control procedures. For example, the routine for obtaining information on the units of merchandise returned by customers should be planned in relation to the store's method of handling such returned merchandise. In many cases, some of the data needed for the unit-control records will be available from the regular store systems with little or no additional work.

The second source of inaccuracy, the failure to obtain complete and correct information on all records, is more difficult to overcome The control supervisor must issue careful and precise information to everyone that has any part in the unit control so that it is generally understood exactly what is needed in the system It is important that everyone concerned understand that a complete performance of his task is essential to proper operation of the system. Otherwise, for example, a person handling a certain phase of the system may decide that he can short-cut or simplify his part, without realizing that by so doing he may cause inaccuracies at other points in the system. Also, it is important that the supervisor of the system make sure that the activities in the unit-control procedure are not made too difficult. The third source of error, clerical inaccuracy, can be overcome or lessened by proper selection and training of the unit-control personnel and by careful supervision of the clerical activities.

Variations between the stock amounts as shown by the book records and those shown by actual counts will arise from such causes as theft of merchandise, inaccurate postings of information, inaccurate checking at time of receipt of merchandise, and inaccurate measurements and weights. At the time a store

[1] By store "systems" (or system) is meant the methods of handling the various types of sales transactions and other transactions and activities that require specific routine

takes its regular physical inventory of all its stock, these inventory figures can be used as a check against the stock-control records. At any time a physical count can be made of the goods in a merchandise classification or of a particular lot; then the control records can be revised

Unit-control Reports.—The retailer must remember that all the work of collecting and recording the unit-control information is simply a means to an end—the effective use of that information in aiding the store to keep complete assortments at the right time and price and still not be overstocked The value of the analyses and reports secured from the unit-control records ought to be judged in the light of that essential purpose of unit control rather than by their number and variety.

In preparing reports that will be usable and effective, the following considerations are particularly important:[1] (1) They should be prepared in as simple form as possible. Thus, they can be easily read and understood, and there is less chance of misinterpretation of the data presented. (2) As nearly as possible the reports should be self-sustaining; that is, it should not be necessary to refer to a number of reports to get one type of information (3) The reports should be completely headed, to show at a glance what they cover. This is especially important with tabular material.

The number and type of reports vary greatly according to differences in size of store, type of control, extent of the control, and other factors. The unit-sales information obtained by use of the control system may be presented in reports covering particular periods and presenting an analysis of sales by price line, style number, and other merchandise breakdowns. For example, for a dress department a sales report might show the daily unit sales broken down by classifications (subdivisions of a department), price lines, style numbers, and vendors. For other merchandise the sales report might cover a longer interval and present an analysis of sales by other breakdowns. Likewise, the stock information available may be presented in various forms depending upon the particular inventory facts

[1] These considerations were suggested in a talk entitled "Classification, Price Line and Unit Control," given by Jack Gilbert (Purchasing Agent, Mandel Brothers, Chicago) before the class in retail merchandise control of Northwestern University.

that are to be emphasized. In addition to the usual reports and analyses of sales and stocks, many other reports may be prepared such as periodic summaries of slow-selling merchandise, "best-seller" reports, and reports on "low" and "out-of-stock" merchandise Certain summaries or analyses of the unit-control information may be designed to emphasize the trend in sales or stock conditions. For example, a color report for a particular item might present, along with the percentages of sales in each color during a particular week, comparison figures for previous weeks; thus, any changes in the popularity of the various colors would be indicated.

If the unit-control records and reports are really to aid in the control of stock in physical units, they must not be considered merely as historical data. Instead, they must be analyzed carefully as a means of determining what steps can be taken to obtain a better adjustment between stocks and sales. For example, an analysis of a report on slow-selling merchandise may reveal steps that can be taken to eliminate much of this stock A comparison of such reports periodically should indicate what progress is being made as a result of the action taken Or a comparison of sales and stocks of an item by price lines may indicate that the stock is being carried in amounts entirely out of proportion to the sales volumes of the different prices. If a perpetual-inventory system of control is used, a comparison of the book inventory figure with the physical inventory at the end of a season, or whenever a physical inventory is taken, may help in locating stock shortages in specific parts of the stock. Many other examples could be given of the valuable merchandising information that can be obtained from the unit-control records and reports

Limitations of Unit Control.—The value of the unit control naturally is limited to the use made of the information gathered. There is a real danger that after a stock-control system is installed and in operation the retailer or the store buyers will ignore it or at least will not make the most effective use of the information made available.

Some buyers are opposed to unit-stock control because they feel that it takes away from them some of their freedom of action; as one buyer expresses it, "Stock control tends to make buying automatic and so removes the necessity of a high-class buyer."

However, even in the case of certain staples controlled on a maximum- and minimum-stock basis, there is need of comparatively frequent revisions and adjustments. The fact that the stock of certain articles can be controlled to some extent on an automatic basis is an advantage to the buyer, for it liberates him from routine and gives him more time for planning. Also, unit-control records give him a better basis for interpreting consumer demand. Instead of relying upon hunches or memories, he has an accurate picture of what has been the case in the past and what is proving to be the case in the present concerning the sale of sizes, styles, colors, etc.

One means of getting buyers to use a stock-control system properly is to sell them on its worth. They should be shown how it helps them rather than hinders them in buying. Another means is to make it easy for the buyers to use such a system. If the records are kept near the buyer, it is more convenient for him to consult them Many of the larger stores find that their buyers are too busy to keep in constant touch with all the stock-record cards; hence, they prepare daily, weekly, or monthly summaries for the buyers. These recapitulations bring to the buyers' attention important facts brought out by the stock-control system Where the departments keep their own stock records, the cards are close to the buyers so that they can consult them at will. If the stock-control office is under the general merchandising manager or the controller, it is more usual to find the information summarized for the use of the buyer.

Even though a unit-control system is used, it does not provide an answer to all merchandising problems. The information made available constitutes a valuable guide to the retailer in his merchandising operations, but the system and the facts available from its use do not replace the need for imagination and sound judgment on the part of the retailer Actual control of merchandise stock involves proper interpretation of merchandising data and the making and execution of decisions based on these interpretations. However, if properly used, an organized method of unit control provides the retailer a more factual basis upon which to make decisions that will direct his merchandising ability and financial resources into profitable merchandising channels.

CHAPTER XIV

STOCK TURNOVER

Meaning.—The word *turnover* has been used so much in retail discussions during the last few years that it seems almost unnecessary to define it. However, one finds that it is employed in different senses by those who use it. It is used loosely to mean "a stock turn" or the rate of stock turn. In general the meaning of the word also includes capital turnover as well as stock turnover.

A *stock turn* is commonly defined as the sale of and the replacement in stock of a given quantity of merchandise.[1] If a merchant has a stock of 50 dresses and during a month sells and replaces in stock 50 dresses he has had "a stock turn."

The *rate of stock turnover* (or rate of stock turn) is the number of times that the average stock is sold and replaced during a certain period of time. The rate of stock turn ordinarily is expressed on a yearly basis; thus, unless a statement to the contrary is made, the rate of stock turnover for a store or department means the number of times during the year that the average stock has been sold and replaced. In some departments the rate of stock turn may be figured for the season; in other cases, it may be computed on a monthly basis or even on a weekly basis if the department has a very rapidly moving stock or if the merchandise plan is broken down by weeks.

Distinction between Stock Turn and Capital Turnover.—As contrasted to the rate of stock turn, which measures the number of times that the average stock has been turned into sales, the rate of capital turnover ordinarily measures the number of times during a period that the cost of investment in merchandise is returned in sales When used in this sense, the rate of capital turnover is determined by dividing net sales at retail by the average stock at cost (which represents the average investment in merchandise). Capital turnover also is used in some instances

[1] Other terms synonymous with "stock turn" are "stock turnover" and "merchandise turnover."

to refer to the relationship between net sales and average working capital and in still other cases to express net sales divided by average net worth.

The rate of capital turnover is an index of the degree of employment of capital and is of importance particularly to investors. However, as a measure of merchandising efficiency, the rate of stock turnover is commonly used. In the following discussion, unless otherwise stated, the word turnover will refer to stock turnover.[1]

How to Figure Stock Turn.—Strictly speaking, the rate of turnover refers to the movement of the actual physical stock; therefore the rate of turnover may be obtained by dividing the number of units sold by the average number of units in stock during the period For example, suppose that during a period a merchant sold 1,000 units of an article and that the average number of units of the article in stock during the period was 500. The rate of turnover in that case would be 1,000 divided by 500, or 2.

The limitations of the above method are apparent when one considers the large number of items carried by the average retail store.[2] As a result of the impossibility, or at least the impracticability, in many instances of figuring the rate of stock turn in terms of physical units, the rate of turnover ordinarily is figured from sales and stocks expressed in dollars.

Two different methods of determining the rate of stock turn through the use of dollar figures are in common use. The rate of turnover may be figured by dividing the net sales (at retail) by the average stock on hand (at retail). For example, a merchant has had sales during the year of $10,000 and an average stock at retail of $2,500. In figuring his turnover, he would divide the $10,000 (sales) by the $2,500 (average inventory), which would give 4 as his rate of turnover. This merchant could then say that he had turned his stock four times during that year.

[1] If goods were sold at cost, the rate of capital turnover and stock turn would be the same This is on the assumption that capital turn is being used in the sense of the relationship between sales and the average investment in merchandise

[2] For example, think of determining on a physical-unit basis the turnover in a hardware store in which several hundreds or even thousands of items are carried.

The second method of determining the rate of turnover when dollar figures are used is to divide the cost of sales (cost of merchandise sold) by the average inventory at cost. Thus, on the basis of a cost of sales of \$8,000 and an average inventory at cost of \$2,000, then \$8,000 divided by \$2,000 would give a rate of turnover of 4

In figuring stock turn, it is essential that both sales and inventory be upon the same basis; that is, one cannot be taken at retail and the other at cost. Unless they are figured on the same basis, an accurate stock-turnover figure cannot be obtained.[1] If the merchant desires to use inventory figures on a cost basis, he must reduce his sales to cost before he divides the sales amount by the average stock figure. The sales can be reduced to a cost basis by multiplying the sales at retail by the complement of the gross margin percentage Thus, if the gross margin is 30 per cent and the sales \$60,000, the cost of the goods sold would be 70 per cent of \$60,000 ($0.70 \times \$60{,}000$), which would amount to \$42,000

In stores using the retail method of inventory[2] the standard practice is to determine the rate of stock turn on the retail basis (sales divided by average inventory at retail) However, many stores, particularly smaller ones, operate on the cost method of inventory and do not have available inventory figures at retail; thus, the rate of stock turn is determined by dividing the cost of sales by the average inventory at cost. If both methods are used, one as a check against the other, the cost method will show a slightly higher rate of turnover, as a rule To illustrate, assume sales of \$9,000, average retail stock of \$3,000, initial markup of 35 per cent, and a gross margin of 30 per cent. The rate of turnover would be figured by the two methods as follows:

$$\text{Stock turn (retail)} = \frac{\$9{,}000}{\$3{,}000} = 3$$

$$\text{Stock turn (cost)} = \frac{\$9{,}000 \times 0.70}{\$3{,}000 \times 0\ 65} = 3\ 23$$

[1] If sales at retail are divided by average cost inventory, the resulting figure is the rate of capital turnover rather than the rate of stock turn The relationship between capital turnover and stock turnover can be expressed in equation form as follows· Stock turnover = capital turnover (100% − initial markup %) The higher the markup, the greater the difference between the rate of capital turn and the rate of stock turn.

The cost method gives a slightly higher figure because the sales amount is reduced by the percentage of gross margin, which is smaller than the initial markup percentage by which the average retail inventory is reduced to cost.[1] Because the gross margin obtained ordinarily is less than the initial markup, there results the above difference in rate of turnover as figured by the two methods.

Determining the Average Inventory.—The determination of what constitutes an average inventory is a problem of real importance, because the accuracy or inaccuracy of the average-stock amount directly affects the rate-of-turnover figure If the method used to obtain the average stock figure results in an understatement of the amount, the resulting rate of stock turn will be larger than the rate actually obtained; on the other hand, an overstatement of the inventory amount would result in an understatement of the rate of turnover.

In many stores the average inventory figure is determined by adding the opening and closing inventories for the year and dividing the total by 2. A physical inventory, or count, in these stores ordinarily is taken at the end of the year The physical-inventory figures represent the closing inventory for that year and the opening amount for the next year. As a result, the average stock for a particular year is simply the average of the closing inventories of that year and the previous one. This average inventory, then, really indicates only the amount of stock on hand at the ends of the years and may not be at all representative of the average amount on hand throughout the year This is especially true because many stores let their stock decline at the end of the year in order to make it easier to take the physical inventory.

If the figures are available, a more representative average inventory can be obtained by adding the inventories at the beginning of each month and at the close of the twelfth month and dividing the total sum by 13. This method of obtaining the average inventory is the generally accepted one in stores operating under the retail method of inventory, for monthly inventory figures are available without taking a physical inventory at the close of each month. In other stores, also, it is possible for the

[1] In the above example, 0 70 is the complement of the gross margin and 0 65 is the complement of the initial markup

merchant to determine the average stock by averaging monthly stock figures even though he does not take a physical inventory at the close of each month. These monthly stock figures can be obtained by keeping a simple book inventory at retail.[1]

If a merchant knows what was in stock at the beginning of a month (at retail) and what has been purchased and added to stock during the month (at retail), he can add these two figures to obtain the total goods handled at retail. By subtracting from this sum the net sales amount, he obtains the approximate stock on hand at the end of the month at retail.[2] This figure is also the stock on hand at the beginning of the next month; thus, he can repeat the process in order to get the inventory at the end of the next month. For example, if a physical inventory shows a merchant that on Jan 1 he had stock on hand of $20,000 (at retail) and if he has added to that stock $7,000 worth of merchandise (at retail) and has had sales of $9,000, he knows he should have $18,000 of stock at retail left on hand

$$(\$20,000 + \$7,000 - \$9,000 = \$18,000).$$

This $18,000 is the retail inventory for Feb. 1, and the end-of-February stock is obtained by the same procedure as indicated above for January Then, by obtaining the other monthly figures by this method and taking another physical inventory at retail on Dec. 31, the merchant has 13 inventory figures available. The average inventory obtained from these figures can be divided into the net sales for the year to obtain the number of stock turns.

Some large stores determine the average-stock amount by averaging 53 weekly[3] inventories; this gives a more accurate figure than either of the two methods discussed above. However, this stock figure (or the turnover rate found by using it) is limited in value as a measure of comparison with other stores,

[1] This is the method recommended in *Speeding Up Stock-turn*, a booklet published by the Merchants Service Bureau of The National Cash Register Company, 1939.

[2] This book inventory will not be exactly correct ordinarily because of markdowns, shortages, and other reductions in the retail value of the stock; however, it gives the merchant a reasonably accurate figure for the purpose of determining the rate of turnover. For a further discussion of book inventories, see Chap XV

[3] Fifty-two beginning-of-the-week inventories plus the inventory at the end of the fifty-second week

because comparatively few stores find it practical to determine average stock on the basis of weekly-stock figures.

Because the determination of the average inventory directly affects the rate of stock turn shown by a store, there is the need for a common method among stores of determining the average-stock amount so that rates of stock turn can be compared on a more strictly comparable basis. The following figures of a dry-goods store will show the need for a common method of determining the average inventory:

INVENTORY ON HAND AT RETAIL

First of January	$ 9,000	End of July	$ 7,000
End[a] of January	10,000	End of August	11,000
End of February	12,500	End of September	21,000
End of March	20,000	End of October	23,000
End of April	19,500	End of November	24,000
End of May	14,000	End of December	10,000
End of June	10,000		

[a] The end-of-the-month stock would also be the first-of-the-month stock for the following month in each instance, for example, end-of-January stock is the first-of-February stock, etc

If the average of the two physical inventories at the beginning and the close of the year is used, the average inventory would be \$9,500 [(\$9,000 + \$10,000) ÷ 2]. On the basis of net sales of \$60,000, the rate of stock turn would be 6.3. Now, suppose another store with exactly similar stock figures, but this second store finds its average stock amount by adding the 13 inventories and dividing by 13 This method gives an average inventory of \$14,692 (\$191,000 ÷ 13 = \$14,692). On the assumption that this second store also has net sales of \$60,000, its rate of stock turn would be 4.1 (\$60,000 ÷ \$14,692 = 4.1). Clearly, these two rates of turnover cannot be properly compared, because one rate is about 1½ times the other, although we know (from our assumptions) that both stores had the same stock figures and the same net-sales amount.

When rates of turnover of different stores are to be compared, it is essential that all use the same method of arriving at an average inventory. The average of the 13 monthly inventories not only gives a comparatively accurate figure but also is quite commonly used by those stores operating under the retail method of inventory; thus, its use helps to make it easy for stores to exchange data. However, many stores, especially smaller ones,

take only one physical inventory a year (at the close of the year) and do not maintain any form of book inventory; thus, the only available method of determining the average stock is to average the beginning-of-the-year (end-of-last-year) inventory and the end-of-the-year inventory. Thus, the stock-turnover rates obtained by the use of this type of average-stock figure must be used in any comparison among these stores, although it is granted that the use of an average of 13 monthly-stock figures would ordinarily provide a more accurate indication of the rates of stock turnover.

Average Rates of Turnover.—Various trade groups and other agencies currently compile, among other figures, the rate of stock turn in various types of store.[1] This makes it possible for a merchant to compare his own rate of turnover with the common rate of other stores of the same type.

In order to provide a more accurate basis for comparisons among stores, the stores of each type (for example, department stores) may be divided into groups according to their sales volume and an average rate of turnover figured for each group At times, stores may be grouped according to the size of the town in which they are located and an average rate of stock turn compiled for each of these groups. As a result of groupings such as those suggested, the merchant is given an average that is obtained from stores operating under conditions similar to his own If the merchant finds that his rate of turnover is below the average of the group in which his store would fall, he can look for reasons for his variation and thus determine means of speeding up his rate of stock turn

Advantages of Increasing the Rate of Turnover.—Increasing the rate of stock turn brings about certain very definite advantages. Among the most important of these are the following:

1. Because a smaller capital investment in proportion to the volume of sales is required, the capital in the business is used more efficiently. For example, if the rate of turnover is increased to the extent that sales of $15,000 can be made with an average stock of $3,000 instead of $5,000, the investment in the merchandise

[1] For a compilation of stock-turnover rates, as well as other information, for various kinds of store, see *Expenses in Retail Businesses*, a booklet published by the Merchants Service Bureau of The National Cash Register Company.

is being used more efficiently and the extra $2,000 that is released can be used in other lines of merchandise if needed or can be lent to an outside party at the prevailing rate of interest.

2 Interest, merchandise taxes and insurance, and many other expenses are reduced in relation to sales. Investigations have shown that there is a relation between the rate of stock turn and many of the expenses of the store. This relationship is shown quite clearly in the case of interest charges and stock turn. As a store increases its rate of turnover, it is getting larger and larger sales in proportion to the amount invested in the average stock on hand; therefore, the interest charges as a percentage on sales decrease. If interest is figured at 5 per cent on an investment of $10,000 in stock, the interest cost would be $500. If this average stock of $10,000 is sufficient for sales of $20,000, the interest charge would be 2.5 per cent of sales; with sales of $30,000 the interest would be 1 66 per cent; and with sales of $40,000 and the same average inventory, the interest charge would be 1.25 per cent of sales

Merchandise taxes and insurance costs likewise vary with the rate of stock turn, for they are based on the average amount of stock on hand If a merchant could double his volume of sales from the same average stock, the cost of taxes and insurance would be spread over a larger volume of sales and so would show a lower percentage

As a rule, rent expense, also, will be affected by the rate of stock turn As the amount of stock on hand is lowered in relation to sales, as is the case with an increasing rate of turnover, less floor space is needed than before to obtain a given volume of sales; thus a department may be able to get the same volume of sales at a lower rent cost, because rent usually is charged to a department on the basis of the amount of floor space occupied. Or if the department occupies the same space as before, the percentage of rent expense to sales will decrease because the increasing rate of turnover means an increase in sales relatively greater than any increase in the average stock of the department.

Handling costs are reduced as the average inventory is lowered in relation to sales: fewer handling facilities are required, salespeople spend less time in checking and caring for the merchandise in stock, physical inventories can be taken more quickly and more easily, etc.

The amount spent for salaries and wages tends to decrease as a percentage of sales as the rate of stock turn increases. This is no doubt partly due to the fact that a store management which is attempting to increase its rate of turnover is likewise trying to be more efficient in all other ways as well.

3. Markdowns are reduced because the shorter period during which the goods are carried in stock means less risk that the merchandise will deteriorate or go out of fashion. In Chap. 5 of *The Buyer's Manual* (revised edition), Walter Hoving gives the following figures, which show the changes in the percentage of markdowns in a certain department that resulted from an increase in its rate of stock turn:

Year	Number of stock turns	Markdown, per cent
First	4½	2.4
Second	5¼	1.8
Third	6	1.4

4. When the buyer or merchant maintains a rapid rate of turnover, he is more often "open to buy" new merchandise (especially important in the case of fashion goods) and to take advantage of any special prices or offerings that may be made to him. He also can more readily adjust his buying program to changes in general business conditions.

5. The rapid rate of turnover means more frequent restocking of the store or department with new and fresh merchandise, this tends to increase the sales because of the favorable impression that the fresh assortments of current market offerings make upon both the customers and the salespeople of the store.

Relation between Stock Turn and Net Profit.—The greatest advantage that a merchant should obtain through increasing the rate of turnover is that of increased profits. This advantage results primarily from the other benefits or advantages previously discussed. In order to be sure of obtaining this fundamental benefit of increased profits, the merchant must understand the exact relation between stock turn and net profit.

Because of the emphasis placed simply on the idea of getting a rapid rate of stock turn, a merchant may lose sight of the proper and necessary relationship between turnover and net

profits. Turnover is not an end in itself but rather a means to an end. It is of value only if it increases net profits. Turnover secured at the expense of profits is of no value. For example, if in order to sell goods rapidly a merchant prices his goods too low, he will secure a high rate of turnover but at the end of the year will find there is no net profit.

If the necessity of combining a profit with turnover is clearly recognized, the chance for increasing the net profit by increasing the rate of stock turn can be seen readily. At this point a distinction should be made between net profits as a percentage of sales and as a percentage of investment. Expenses and profits ordinarily are expressed as a percentage of sales. As has been shown, an increased rate of turnover ordinarily results in a decrease of certain items of expense as expressed in percentages of sales; thus the net profit in terms of percentage of sales may be increased[1] However, even if the percentage of profit to sales remains the same with a faster turnover, the percentage of profit on the investment will be increased.

If during a year a furniture store stocks a $100 davenport and sells it at a net profit of $5, the store has made a net profit of 5 per cent of sales so far as that one item is concerned. Now suppose that another store stocked a similar davenport and sold it and then bought another one and succeeded in selling it before the end of the year This store made a profit of $5 on each of the $100 davenports. Although this second store made two turnovers while the other store made one, its net profit in percentage of sales was the same, that is, 5 per cent ($10 net profit divided by $200 sales equals 5 per cent). The net profit on investment, however, was different in the two stores. To illustrate, assume that each of the davenports selling at $100 cost the stores $60. In the first store, then, the $5 net profit represented a profit of 8 33 per cent on the merchandise investment of $60. In the second store with two stock turns a total net profit of $10 was obtained on the same investment of $60; this represented a net profit of 16 66 per cent on the merchandise investment.

From the above example, it is clear that the percentage of net profit on investment increases as the rate of turnover is increased;

[1] Gross margin % − expense % = net profit %, thus a reduction in the expense percentage would mean an increase in the percentage of net profit (assuming no change in gross margin).

thus the total net profit can be determined by multiplying the net profit on each turn by the number of stock turns. For instance, in the above illustration the second store made a net profit on investment of 8.33 per cent on each turnover, or a total of 16 66 per cent on the two turns. When the net profit was expressed in terms of sales, however, the percentage of profit remained the same with the rate of stock turn of 2 as with 1. The percentage of profit on the basis of sales remains the same, regardless of rate of turnover, except in those cases in which the increased turnover results in a lower percentage of expenses in terms of sales Because there is a tendency for expenses in terms of percentage of sales to decrease with an increased rate of turnover, the greater number of turns may result in a higher percentage of net profit in terms of sales.[1] However, from the standpoint of the merchant the essential thing to remember is that, as long as he makes a net profit on each turn, the total net profit on investment will increase or decrease as the rate of turnover is increased or decreased.

Increasing the Rate of Stock Turn.—Net sales and average stock are the two figures used in determining the rate of turnover; therefore, any change in the stock-turn ratio must come from a change in one or both of these two figures. As a result, there are only three ways of getting an increased rate of stock turn: (1) to reduce the size of the average stock without a proportionate reduction in sales; (2) to increase the sales without a proportionate increase in the average stock; (3) to obtain a larger sales volume with a smaller average stock. To increase the rate of turnover the merchant must make changes in his methods of operation that will result in one of these three favorable changes in the relationship between net sales and average stock.

In attempting to bring about one of the above favorable changes in the relationship between net sales and average stock, the merchant should consider the following store activities particularly: (1) buying; (2) pricing; (3) selling; (4) stock control.

When a buyer lacks judgment as to style and quality, he will place in stock many articles that do not appeal to his customers. His poor selection may be at least partly the result of insufficient familiarity with the desires of customers. By spending more

[1] Naturally, as the percentage of expense decreases, a larger part of the gross margin remains as a profit figure

time on the selling floor, by using the information obtained by comparison shoppers, and by other means of observing customer demand, the buyer should be able to select merchandise that will better satisfy the demands of customers. The buyer may be buying larger amounts of merchandise than necessary because of overoptimism on his part, lack of accurate and definite information upon which to base his estimates, or failure to use the information that he has at his disposal. Other weaknesses in buying might be mentioned, but these should indicate the possibilities of improvements in buying activities that will help move the stock more quickly and prevent the accumulation of a large quantity of merchandise

Likewise, poor judgment in pricing merchandise may keep it from selling. For example, the goods may have been priced at too high a figure originally, and in addition the buyer or merchant may delay taking markdowns on the goods that would reprice them at a figure attractive to the customers of the store.

Poor selling may slow up sales and therefore reduce turnover. When the advertising is not bringing people into the store or when poor personal selling is found behind the counter, the sales will not be so large as they might be. Some articles, though carried in stock all the year, are heavy sellers only during a short period. If demand can be created at other times, there will not be a long period of dull sales to decrease the rate of turnover. Toys at one time were largely bought at Christmas, but today many stores have developed them into fairly steady sellers throughout the year.

Stock control has been of great aid in speeding up turnover It shows up the items which are selling rapidly and those which are not. Frequently, a large percentage of the sales is from a small number of items. The more slow-selling items the merchant can close out, the more he can speed up turnover. In deciding to eliminate some of these slow-moving lines, the merchant must keep in mind the fact that his customers desire variety in merchandise and expect to find articles that are not called for by everyone. It is not easy to hit the happy medium between a wide line of merchandise and a high turnover. This calls for a careful analysis in determining the rate of turnover of the various lines of stock within a department and for merchandising judgment in dropping lines.

Stock control also gives the information necessary in the setting up of purchase limits. The object of such limits is to adjust the stock to the expected sales. Unless stock limits are set up, there is apt to be an overbought condition, that is, there is more stock on hand than is necessary to reach the expected sales. This surplus adds to the size of the average stock and slows up the turnover. As purchase limits are set, the buyer is prevented from overbuying.

Eliminating slow-selling lines, setting purchase limits, and proper pricing and selling of merchandise offer the best means of increasing the rate of turnover.

In evaluating the rate of stock turn the merchant or buyer must keep in mind the type of store or department and the conditions under which it is operating. Naturally, different types of store or department have quite different rates of turnover.[1] A jewelry store cannot expect to have the same rate that a grocery store has. This slow stock turn (as compared with the grocery-store rate) cannot be remedied. Stores with large volumes of sales in almost all cases have a higher rate of stock turn than do smaller volume stores in the same kind of business.[2] One reason for this is that it is easier for a large store to carry a complete assortment than for a small store, because the former will have a greater number of calls for the slower-moving items in proportion to the stock. The location of a store also may affect the possible rate of stock turn. For example, if its location is such that it can draw upon sources of supply on short notice and obtain merchandise quickly, it can do business on a narrower margin of stock and so increase the turnover.

Changes in the organization of the department or store will affect its rate of turnover. For example, it takes a newly organized store or department a certain length of time to hit its stride. In the meantime, its sales will be low in proportion to the stock carried. Likewise, a department may temporarily slow up its

[1] For examples of stock-turn rates in various kinds of retail store, see *Speeding Up Stock-turn*, p. 6, booklet published by the Merchants Service Bureau of The National Cash Register Company, 1939.

[2] For example, in 1939, department stores in the \$500,000- to \$1,000,000-sales-volume group had 3.5 stock turns as compared with the 4.2 turns shown by the over \$10,000,000-sales-volume group. 1939 *Departmental Merchandising and Operating Results of Department Stores and Specialty Stores*, Controllers' Congress, National Retail Dry Goods Association, 1940.

stock turn by introduction of a new line. For instance, putting a line of sports wear into a women's ready-to-wear department may have this effect until people become accustomed to finding sports wear in that department and go there to make purchases

Slow-selling Merchandise.—In attempting to increase the rate of turnover, one's attention turns at once to slow-selling merchandise. If these goods can be singled out and removed from stock or, better yet, prevented from getting into the stock one is a long way toward speeding up the rate of turnover. It is difficult to define slow-selling merchandise, for opinions differ as to just when an article becomes a slow-selling item. As a general statement, slow-selling merchandise is that which has been in stock longer than the average time. According to this statement, in a department that has two turnovers a year any article that has been in stock over six months is slow-selling Because this might include half the merchandise in the department, the rule seems to be too inclusive.

It might better be said that after goods are in stock more than the average time they become "candidates" for the slow-selling class. When they enter that class is largely a matter of judgment. The buyer may intentionally carry some outsizes or unusual designs that will be seldom called for but that are carried for the benefit of some of the store's customers. He expects that these will stay in stock longer than an average time; consequently, he will not treat them as slow sellers.

On the other hand, in sampling a new style, he may quickly see that it is not "taking" and so consider these sample articles as slow sellers which need special attention to clear them out. In this case, especially, it is a matter of judgment. Where six months is the average time merchandise stays in stock, the buyer may decide that, in general, all merchandise which has been in stock over 10 months or over 12 months will be classified as slow selling. If it is a fashion article, he will put it in the slow-selling class sooner than if it is a staple.

Slow-selling merchandise has been referred to as a "buyer's mistake." It is argued that the buyer has in some way misinterpreted customer demand. Although it is not true that all slow-selling merchandise is the result of errors on the part of the buyer, he naturally dislikes to classify merchandise in his department as slow selling, for it seems to reflect on his buying ability. This

is one reason why some large stores have under the merchandise manager a man who is in charge of slow-selling merchandise throughout the store. He checks up with the different buyers and assists them in moving such merchandise.

No matter what person is responsible for slow-selling merchandise, such goods exist in practically every store; the problem they present has to be faced sooner or later. The sooner it is acknowledged, the easier it is to sell the slow-selling articles. Merchandise can stay in stock so long that no amount of markdown will move it. Some method of determining what items are slow selling and the provision of means for reducing the amount of such merchandise are necessary in the retail store of today.

Causes of Slow-selling Merchandise.—In general the causes of slow-selling goods can be grouped into two classes (1) those factors which are within the store or department and are largely controllable; (2) those causes arising from outside factors which are largely uncontrollable.

Of the causes within the store itself, poor buying is probably the most common cause. Poor buying includes purchasing too many styles and prices, buying from too many sources, overbuying of regular and usually satisfactory goods (this may be due to a desire to obtain quantity discounts or other special inducements), overbuying of special sale items that do not readily fit into the regular stock, purchasing too far in advance, and poor judgment in the selection of styles, colors, sizes, etc In addition to poor buying, other causes largely controllable by the merchant are improper pricing of the merchandise, poor window and interior display, weak and ineffective advertising, and poor salesmanship on the part of the store employees

Among the chief causes that are outside the store itself and largely uncontrollable are· (1) Unfavorable weather conditions. A late, warm autumn will mean fewer sales of heavy clothing. An unusually dry season may result in slow-moving merchandise among articles such as umbrellas, raincoats, and overshoes (2) Diminished buying power in the trade territory of the store For example, prolonged strikes or factory shutdowns in a town or city may keep the laborers from work, and thus they do not have money to purchase at the store As a result, goods that under normal conditions would be purchased remain in the store

and become slow-selling merchandise. (3) Sudden fashion changes Although a merchant or department buyer makes full and effective use of all possible information on fashion trends, a sudden and unpredictable fashion change may result in making some of his merchandise slow in selling.

From the above discussion, it should not be assumed that every cause of slow-moving goods can definitely and easily be classified as controllable or uncontrollable, for clearly there are many borderline cases. For example, if a fashion change resulted in slow-selling merchandise, was it because the buyer failed to use good judgment in selecting the merchandise or was the change an unpredictable one? Obviously, such questions are often difficult to answer

Reducing the Amount of Slow-moving Merchandise—The methods or remedial measures for reducing the amount of slow-selling stock in a store or department might be grouped into two classes: (1) preventive measures, (2) corrective measures The first of these should be used where the slow-selling goods result from causes within the control of the store. The second group, corrective measures, have to be used in those cases where the goods are slow in moving because of conditions that could not be prevented by the buyer or merchant. The corrective measures also have to be used in those instances in which the merchant has failed to prevent the causes that could have been eliminated if he had properly conducted his merchandising operations.

Preventive Measures.—A system of stock control supplies a good means of preventing the acquisition of slow-selling merchandise It shows the buyer what sizes, styles, colors, etc, are being demanded. By this means, he can order in the right proportion so that such things as end sizes and unpopular colors or shades will not accumulate to drag down his rate of turnover A buyer who relies upon his memory or judgment is bound to have some merchandise for which there is not a sufficient demand These items soon mount up without anyone's being aware of their number. A stock-control system, by showing the relative demand, gives the buyer an accurate gauge in buying.

Concentration on a few brands and price lines eliminates much duplication that would result in some slow-moving merchandise

Buying from many different sources is one way of accumulating too many brands and price lines. Overbuying in an attempt to get a quantity price means that a certain amount of the purchase will have to remain in stock much longer than average time. The disadvantages that arise from the slow-selling merchandise in most cases more than equal the buying advantage

In addition to these buying suggestions, there are preventive measures on the selling side. The sales force may not be putting its best efforts into selling some products. This may be due to ignorance of the selling points or to a dislike for that type of commodity. For example, in one store a new brand of can opener was not selling although the manufacturer's salesman had shown that it was selling well in other stores Upon investigation, it was found that the store's salesperson herself did not like this can opener and so was not encouraging others to buy it although it was a good item and carried a high markup When the salesperson herself was sold on the desirability of the can opener, sales picked up at once on that item, the increased sales were entirely due to the different attitude on the part of the person behind the counter.

Poor advertising, poor display, or poor location may also be the cause of slow sales In such cases the fact that the article is slow in selling is due not to the qualities of the merchandise itself but to the fact that the public does not get a chance to learn of the qualities which make this article desirable.

Corrective Measures.—These might be called "post-mortem" measures in that they reveal conditions that already exist and may provide a basis for corrective action but do not prevent the occurrence of such conditions. The use of a stock-control system may be mentioned in this group of measures, also The stock-control records show how the items are moving and so reveal those that have become slow-selling items. As a buyer looks through these records, he can see the items that are staying on the shelves.

The use of a season letter on the price ticket will show at a glance how long an item has been in stock. As an example, an item that was put in stock between Jan. 1, 1940, and June 30, 1940, would carry the letter A, any item put in stock between July 1, 1940, and Dec. 31, 1940, would carry the letter B. The next half year's stock would be C stock, and so on. During a

physical inventory the season letter is recorded along with other information. A summary of slow-moving stock by groups (A, B, etc.) can then be drawn from these inventory sheets. The length of the period designated by a letter will vary according to the type of merchandise and its rate of turnover. The season letter shows the time when merchandise was put in stock and so automatically proclaims an article as a slow seller.

As indicated above, a slow-selling report may be made out from the inventory sheets. This contains a list of the slow-selling items, their selling prices, season letters, and columns to show the amount on hand at the time the report is made as well as reductions in quantity at stated periods after that. Such a report calls these items to the attention of the buyer and the merchandise office and makes some action imperative. Why are not these items moving? What can be done to speed up their sale? How can similar items be kept out of stock in the future? These and other questions arise as the result of a study of the slow-selling reports Such a study of specific articles is of great help in moving them. At times, a change in location or special advertising will increase their sale; at other times, drastic price reductions may be needed.

The sooner any slow-selling merchandise is revealed to the buyer, the better chance he has of getting rid of it with a profit or a comparatively small loss, therefore, a buyer may not wish to wait for a physical inventory to reveal these slow sellers Even where a unit-control system will reveal the slow-moving items, a buyer will find that it pays to make a frequent inspection of the actual stock In this way, not only does he know what merchandise is slow selling, but also he sees the actual merchandise itself and can study it, this may result in his obtaining considerable information that would not be obtained simply from the study of the report on this merchandise This actual examination of the stock emphasizes both to the buyer and to the salespeople the importance of the slow-selling items

Some stores use "P.M.'s" as a means of moving slow-selling goods The P.M., which is an abbreviation for *premium money*, is a special amount of money that the store pays the salesperson, in addition to all other remuneration, as a reward for having sold a particular piece or unit of the slow-selling

merchandise.[1] Although, in many cases, these payments may be effective in obtaining sales,[2] they are open to question from the standpoint of customer satisfaction and good will. Is the store really serving the public when it encourages the salespeople to push the sale of merchandise that is not in demand at the price at which it is offered?

Dangers of a Rapid Rate of Stock Turn.—So much emphasis has been placed on turnover in recent years that some merchants have tended to think of it not as a means to an end[3] but rather as an end in itself. If a store sets up a higher rate of stock turn alone as a goal, there is the danger of reducing the stock to a point that will mean the loss of sales because of inadequate assortments.[4]

These inadequate assortments not only result in the loss of many potential present sales but also cause the loss of customer good will and thus lessen future sales. When a store gets the reputation of being out of items or of not carrying items that are supposed to be a part of its line, people may jump to the conclusion that the store will not have a desired item, and they may go elsewhere rather than try this store first; this results in many lost sales of merchandise that the store does carry. Thus, in order to have complete assortments, a store usually finds it necessary to include in its stock some of the slower selling items which, when averaged in with the more rapidly selling items, will, it is true, give a slower rate of stock turn for the assortment as a whole. The store, however, gains in greater customer satisfaction, which will benefit both sales volume and profit.

Another possible danger in putting too much emphasis on turnover is that the merchant may lower markup to such an extent

[1] P. M.'s may also be used for other purposes which will be discussed in a later chapter.

[2] Many stores that have used P.M.'s as a means of moving slow-selling goods consider them an ineffective measure. In the opinion of some retail executives, P.M.'s are most effective when limited to a short period of time and when applied to a small amount of goods at a time rather than to the entire slow-selling stock at once.

[3] The desired end is increased net profits.

[4] During the depression years following 1929, there was a tendency for stores to try to do business on as small a stock as possible. As a result, there were incomplete stocks and some customers could not find what they wanted and so did not buy, thus, some potential buying power did not develop into actual purchases.

to get sales volume that the total profits may be smaller than they would be with fewer sales and the stock priced at a higher figure Also, a high rate of turnover tends to increase ordering and receiving costs because of the larger number of orders and shipments; purchasing more frequently, and thus in smaller amounts, may mean the loss of quantity discounts.

Summary.—From the standpoint of the retailer the fundamental problem of turnover might be stated in the question "How can I have a high rate of turnover and still maintain proper assortments?" The answer is twofold: (1) through proper stock control; (2) through the use of merchandising judgment. By studying his stock-control records a merchant can see the velocity of movement of the different sizes, colors, styles, materials, price lines, etc. With these in mind, he can adjust his purchases to past sales. Want slips, reports of the salespeople and of the comparison shopping department, and other sources of information will be of help; but no amount of records or system can eliminate the need for merchandising judgment on the part of the buyer or merchant. With all the help in front of him that his records can give him, the merchant still must use his judgment in striking a happy balance between stock turn and complete assortments, keeping in mind that the ultimate goal is net profits. He must remember that a good rate of turnover is the *result* of the proper relationship between net sales and average stock; that relationship is obtained through good merchandising operations.

CHAPTER XV

INVENTORY

Why Have an Inventory?—Every operation in retailing, as in any other field, should fulfill some useful purpose Taking inventory has always been considered one of the inevitable tasks to be performed in a store. However, it is not merely a rite to be performed for its own sake. There must be definite advantages to be obtained from a physical count of the merchandise or a book method of obtaining an inventory figure; otherwise, it would be better to omit the inventory as a waste of effort.

The purpose of an inventory differs in various stores, depending upon the type of inventory used and the use made of the inventory as a basis for judging and planning merchandising operations In some stores the taking of a physical inventory of the merchandise corresponds to the process of balancing the cash. Just as a merchant wants to know the truth concerning his cash, likewise he wishes to know the truth concerning the amount of merchandise; therefore, he counts his merchandise just as he counts his cash. In other stores, one of the major purposes of a physical count of the merchandise is to serve as a check on the accuracy of book figures that already exist. Although these stores have current book figures on the amount of merchandise on hand, these must be checked periodically by an actual physical count [1]

There are a number of uses to which the information regarding the amount of merchandise on hand may be put. In order to determine the net profit or loss for a period, a merchant must know the amount of merchandise on hand at the beginning and at the end of the period, for these inventory figures are required in the determination of the cost of merchandise sold [2] In addition to its use in the determination of the operating results of a

[1] The need for this check, if not apparent at this point, will be evident to the reader after the balance of this chapter is studied.

[2] This is discussed on p. 281.

period, which are shown in summary in the profit and loss statement,[1] the amount of merchandise on hand is an important item in the balance sheet, which indicates the financial position of the store at a given time. Ordinarily, in the retail store the merchandise inventory is by far the largest current asset In addition, inventory figures are used in the preparation of certain operating ratios, such as, for example, the rate of stock turnover.

Information as to the merchandise stock also may be used in the buying and other merchandising activities of the store For example, an inventory indicates the kind and value of the merchandise in stock and thus furnishes information that is necessary for effective buying. An inventory also helps reveal the slow-selling merchandise which must receive special attention in order that it may be sold Particularly in the case of a physical inventory, as contrasted to a book inventory, the actual handling of the merchandise is valuable, because it focuses attention on each article and so brings to light old merchandise that may be disposed of but that otherwise would have continued to lie on the shelves. If in addition to taking a physical inventory a store also maintains a book inventory, it can determine the amount of stock shortage or shrinkage.[2] The fact that the amount of such shortages is actually known tends to emphasize the need for a plan to lessen them.

An inventory of the goods on hand gives a basis for the determination of merchandise taxes and of insurance on the merchandise It also might be used in presenting a claim for an insurance settlement in case of a fire loss or in requesting a loan from a bank.

Importance of Obtaining Accurate Inventory.—If an inventory is to give effective and correct results when used for the abovementioned purposes, clearly the inventory itself must be an accurate one. The need for accuracy in the inventory figure is especially evident when its use in the determination of the profit or loss for a period is considered The basic importance of an accurate inventory figure in determining the gross margin from sales, and consequently the net profit from operations, can best be explained by an examination of a retail operating statement. The following table shows in simple form the

[1] Frequently called simply the "operating statement."

[2] Stock shortages are discussed at length at a later point in this chapter

basic elements entering into the determining of profit from operations:[1]

Net sales		$9,800
Opening inventory at cost	$ 4,000	
Purchases at cost	6,000	
Cost of goods handled	$10,000	
Less closing inventory at cost	3,500	
Cost of goods sold		6,500
Gross margin		$3,300
Expenses		2,950
Net profit		$ 350

As shown above, the cost of goods sold is determined by adding to the opening inventory at cost the purchases at cost and then subtracting the closing inventory at cost. The cost of goods sold is subtracted from the net sales figure to obtain the amount of gross margin Thus, it is evident that the inventory figures have a direct effect on the gross margin and consequently the net profit for the period. For example, if the closing inventory in the above example were determined as $3,000, the cost of goods sold would be $7,000, the gross margin would be $2,800, and the final result would be a net loss of $150 instead of $350 net profit Conversely, if the closing inventory were valued at $3,800, the cost of goods sold would be $6,200, the gross margin would be $3,600, and the net profit $650. Thus, an understatement of the closing inventory results in an overstatement of the cost of goods sold and an understatement of the gross margin and net profit for the period; on the other hand, an overstatement of the closing inventory would mean an overstatement of net profit. Consequently, if the retailer is to determine the actual profit or loss for a given period, he must have accurate inventory figures.

The count of the merchandise on hand at the end of a year (or other period) not only provides the closing-inventory figure for that year but also will be the beginning inventory for the following period. Thus, an inaccurate closing inventory for a period not only results in an incorrect statement of operating results for that period but also will cause errors in the figures for the succeeding period.

[1] For a detailed discussion of the operating statement (profit and loss statement), the reader is referred to any one of the standard texts on accounting.

In addition to the necessity for having correct inventory figures in the determination of profit, the information must be accurate if it is to provide a satisfactory basis for the working out of buying and other merchandising plans, for determination of merchandise taxes or insurance costs, and for use in the other ways previously mentioned.

If an accurate inventory figure is expected, an accurate means of attaining it must be provided. The importance of accuracy should be explained to the store's personnel so that everyone engaged in taking the inventory will strive to make it as accurate as possible It also is essential that the inventory procedure be thoroughly planned and executed.

Physical Inventory.—In the preceding discussion the terms "physical inventory" and "book inventory" have been used. An inventory is classed as a *physical* or *book* inventory according to whether the inventory figure is obtained by an actual count of the goods on hand or through some means of record keeping.[1] A physical inventory is the actual physical counting and recording of all the merchandise in the possession of the store at a given time. This means that all merchandise must be handled, inspected, and evaluated As previously pointed out, a physical inventory may be used by itself as the sole means of determining the amount and value of the merchandise on hand, or one of its major purposes may be to serve as a check on the accuracy of a book inventory.

Because the physical handling of the merchandise that is involved in the taking of a physical inventory is no small task, the inventory is usually taken at a time when the stock of merchandise is low. If a store takes inventory only once a year, it is usually in January. Other stores may count their stock again in July, and still others at more frequent intervals. A store may consider it desirable to count the merchandise in certain departments more frequently than in others, thus, it will have departmental inventories at other times than those at which a store-wide inventory is being conducted.

The physical inventory may be taken at cost prices or at retail prices.[2] If the store is operating under the retail-method-of-inventory system of merchandise accounting, the merchandise

[1] The book inventory is discussed at a later point in this chapter.

[2] In some cases, both cost and retail prices may be listed.

when counted is listed at the retail figure; then the retail-inventory figure for a department is reduced to a cost basis.[1] In a store operating on the cost method of inventory, all records of the merchandise in stock are kept at cost and, when the merchandise is counted at physical-inventory time, it is listed at a cost figure.[2] In most retail trades, the merchant must determine whether the merchandise in stock at the end of a period is still worth the original cost price shown on the price tag (usually in code). The recognized policy is to value the merchandise at its actual worth, usually as indicated by current wholesale market prices, whenever the actual worth so determined is less than the original cost price. On the other hand, if the replacement cost of the merchandise on hand is higher than the actual cost, the conservative practice is to value the merchandise at its original cost figure rather than at the present market price Thus the conservative rule in determining the figure at which the merchandise should be listed in the inventory is "Cost or market, whichever is lower."

Because the physical inventory is essential, regardless of whether or not a store has book-inventory figures, the actual process of making a physical count of the merchandise will now be discussed more in detail. A few stores have maintained that their book records of the amount of merchandise on hand are so accurately kept that it is unnecessary to check them periodically with a physical count; if this is true, it is the exception rather than the rule.

Preparing for Physical Inventory.—An inventory is supposed to picture the condition of the store's merchandise at a particular time. The less time used in conducting the actual count, the more nearly the inventory figure obtained represents the true condition at a definite time Also, the count should be made within as short a period of time as is consistent with an accurate count so that the inventory will interfere as little as possible with

[1] The retail method of inventory is discussed at length at a later point in this chapter.

[2] Ordinarily, under the cost method the cost is shown on the price tag in code (for discussion of cost codes, see p. 184) Thus the listing of the goods at cost involves first the decoding of the cost code shown on the price tags and then the listing of the cost amount Under the retail method of inventory, the retail price can be listed directly from the price tags

the regular business of the store. Moreover, the longer the period of time required for taking the inventory, the greater the chance of mistakes when goods are being placed in stock or taken out for sale As one means of speeding up the actual taking of inventory, the merchant carefully plans all that is to be done and the best way of doing it and puts the stock in order before the actual counting begins.

In some stores a special sale is held preliminary to the taking of inventory. Remnants, out-of-date goods, broken lots, and slow-selling goods are stressed in this sale. In this way, much merchandise is cleared out of the store and so does not have to be counted. Other stores may have a sale after taking inventory rather than before; in support of this, they say that they are in a better position at that time to know what goods should be offered in the sale, because the actual inventory taking reveals the true condition of the merchandise and thus shows the items that should be cleared out of stock.

Preceding the inventory the buyer and salespeople will arrange the stock so that everything is in its proper place All similar merchandise should be grouped together so that no part of it will be overlooked when the count is made. This grouping will bring to light any mismated or shopworn merchandise, and this merchandise can then be marked down and sold before actual counting starts. If the stock has been kept in orderly fashion, as it should be, this preinventory arrangement will not be a burden.

During this inspection and arrangement of the goods the buyer can make necessary adjustments in the inventory price. If the inventory is being taken at cost figures, the buyer will have to make an adjustment when the present market price is lower than the old cost price In this case the merchandise is listed at the present wholesale market price, the cost of the goods if they were to be put into stock at the date of the inventory, rather than at the higher figure represented by the original cost. It is a conservative practice to anticipate losses in this way If these adjustments were not made, the resulting inventory figure would be too high. A merchant would not make out a financial statement showing $800 in cash if he had only $300 Neither should his statement of the value of the merchandise in terms of dollars be padded, therefore, it is essential that the

cost figures be adjusted before they are copied on inventory pads

In some stores the buyer is required to draw a rough diagram of his department showing all shelves, counters, drawers, and other receptacles for merchandise This diagram can be used in distributing inventory sheets and tags If each sheet or tag is numbered, the diagram can be filled in with these numbers to show the location of every sheet and tag that has been issued. This makes it easier to trace missing inventory forms and to see that all parts of the department have been inventoried.

The average store will use its own employees to take the inventory. The salespeople in each department can count the merchandise there, for they should be more familiar with it than anyone else. Some executives do not approve of this, insisting that these employees may introduce intentional inaccuracies in order to make the department seem in better shape than it really is or to cover up their own mistakes. These merchants shift the employees around so that they will be counting in departments other than their own.

Some stores pick out the more skilled and accurate employees from the store personnel other than the sales force and have them go from department to department conducting the inventory. Although this takes longer, which is a serious disadvantage, there is less likelihood of inaccurate counting. It is also preferred by some stores that take their inventory at cost figures because by this method their salespeople will not learn the cost code and so know the margin the store is making on its merchandise.

Chain organizations maintain skilled crews of inventory takers who move from one store to another of the chain There are also organizations that specialize in inventory taking.[1] A store may hire one of these firms to take inventory. They are expert in their work and usually can do the job in a minimum time.

An important part of the preparation for the inventory is the planning of the inventory "cutoff." By this is meant the preparation of plans to make certain that all merchandise recorded on the records of the store is included in the physical

[1] Some organizations specialize in the calculating of the inventory totals. The merchandise may be counted and listed by the store personnel, and then the inventory sheets or tickets are turned over to an outside company which does the calculating of totals.

count and that any merchandise included in the inventory is recorded on the store records. For example, with inadequate planning, merchandise that is received near the inventory date may be included in the purchases records but not be counted in the inventory or, on the other hand, may be included in the physical count but omitted from the purchases records In order to have the receiving room cleared of merchandise, a store may designate a few days just preceding inventory as a period in which no goods are to be received. If this can be done, it eliminates a possible chance for confusion; for if any goods go through the receiving room to the sales floor while the inventory is being taken, there is the chance either that they will not be counted at all or that they will be counted more than once The inventory "cutoff" plans must also provide for the proper handling of interdepartmental transfers of merchandise, customer returns of merchandise, goods held in the adjustment department, and other special situations that must be controlled if the physical count of the merchandise on hand is to be accurate.

The planning of the inventory also involves a decision as to the forms to be used in recording the inventory In the listing of the merchandise, a store may use either the inventory sheet or the inventory tag or a combination of these two types of form. The inventory sheet is a sheet with space for the different types of information wanted It may include spaces for a description of the merchandise, the amount, the retail price, the cost or market price, the season letter, and space for extensions.[1] A number of items are listed on each inventory sheet.[2]

The inventory tag calls for approximately the same type of information as the sheet, but each style or lot number is recorded on a separate tag [3] The goods may be counted and entered on the tag previous to the date the inventory is to be completed. On the tags, which are placed in the merchandise, there is a

[1] The information to be shown on the inventory sheet (or on the inventory tags, if they are used) will necessarily vary according to the size and type of store

[2] When each sheet is numbered, the store can tell whether all sheets are accounted for at the end of the inventory. If these sheets are charged numerically to the different departments or their location is shown by number on the department or store diagram, a missing sheet can be traced to the spot where it should be.

[3] These tags are numbered so that the loss of any ticket will be revealed.

space for deductions from this count due to sales of merchandise. In this way the actual counting can be extended over several days. If the tags are collected at one time and the deductions figured, the results will be the same as if the inventory had been taken at one time, unless errors have been made in the deductions.[1]

Where inventory sheets, rather than tags, are used and the inventory cannot be completed in a night, on a Sunday, or at another time in which no sales are made, another form called a *deduction sheet* is used. On this should be recorded the sale of all merchandise between the time the merchandise was counted and the closing of the inventory

If the reserve stock is inventoried first, a deduction sheet may be used to show the merchandise that moves from reserve to forward stock before the count of the forward stock is completed. Otherwise, this merchandise would appear twice in the completed inventory and so would cause an overstatement of the inventory.

Taking the Inventory.—When the numbered inventory forms have been placed throughout the store, the actual counting starts When inventory sheets are used, two people usually work together, one of whom counts the merchandise while the other records it on the inventory sheet.

In order to guard against mistakes a store may use a blind check. The form is made out with a column down the center for a description of the merchandise; on either side of that are duplicate columns for quantity, price, and any other required information. After one counter has finished with a sheet, the duplicate columns for quantity, price, etc., on one side of the description column are folded out of sight and sealed The second counter then takes the sheet, seeing only the description column which is already filled out. He then proceeds to inventory these items, filling in the columns on the other side of the description column. After the second counter has finished, a

[1] There is considerable difference of opinion among retailers as to the relative advantages of the inventory-sheet and inventory-tag methods. For a discussion of the advantages claimed for each, see the *Inventory Manual for Department Stores and Departmentized Specialty Stores*, pp. 28, 34–35, prepared by the Chicago Controllers' Association and presented at the Sixteenth Annual Controllers' Congress, N R D G.A , June, 1936. This is an excellent source of information on the entire procedure of physical-inventory taking.

third person unfolds the sheet and checks the two counts shown on either side of the description column. When these do not harmonize, a recount is made to get an accurate figure.

When the inventory-tag method is used the entries are made upon the tags by the same person who examines and counts the merchandise The merchandise is counted and recorded on the tag in advance of the date the inventory is to be completed. Thus the actual counting is spread over several days in some cases, and the salespeople may be able to do all or most of the counting during their spare time[1] After the information for a specific style or lot number of merchandise is recorded on a tag, the tag is placed with that particular group of goods. Any sales or other deductions between the time the count is made and the date the inventory is completed are recorded on the inventory tag in the space provided for deductions. When the inventory is to be completed the tags are "pulled," that is, taken from the groups of merchandise; the count recorded on a tag less any deductions listed constitutes the inventory count for the particular lot of merchandise to which the tag applies Obviously, then, the accuracy of the inventory figure for a given lot of goods is determined not only by the accuracy of the count of the merchandise but also by the carefulness with which all deductions have been listed on the inventory tag.

Great care must be taken to see that all merchandise is entered in the inventory. This includes not only merchandise within the department but that outside the department, as well. Some merchandise may be in the buyer's office, in the comparison-shopping department, in the advertising department, on display in other parts of the store, or in the workroom or alterations room. All this is properly considered as part of the merchandise of the department and must be included if the inventory figure is to picture accurately the condition of the department.

When all merchandise has been entered on the inventory forms, these can be arranged numerically to see that all are

[1] This possibility of spreading the actual counting over several days is particularly important in the case of merchandise requiring measuring, such as yard goods and ribbons One large department store by using a measuring machine that automatically unwinds, measures, and rewinds yard goods reduced the time required to take the yard-goods inventory from a month to 10 days. In addition, the count is more accurate "Measuring Machine Cuts Inventory Time," *Retail Ledger*, Jan. 15, 1939, p. 10.

accounted for. Then the inventory totals are calculated. In a larger store, this will be done in the controller's department, where all extensions are made and totals computed.[1] This is largely routine work, such as multiplying the number of units by the price per unit and adding columns of figures; however, it must be carefully checked to see that no arithmetical mistakes occur.

After this work is completed, the results can be compared with the book-inventory figures if the store maintains a book inventory If, in certain lines or divisions of a department, there is a much wider variation than was expected, the extensions will be checked first to see if a mistake has been made there If this does not account for the unexpected variation, then that portion of the inventory may be redone to insure accuracy.

Book Inventory.—Many stores keep a *book inventory* (sometimes called a "perpetual inventory") As the term suggests, this is the amount of merchandise which should be on hand as determined, not by an actual count of the goods, but rather by the use of book figures for the items[2] which affect the amount of merchandise that will be on hand at a particular time

For the proper management of a store or department, it is desirable for the merchant or buyer to have available current figures showing the results of the merchandising activities. As has been pointed out, the merchant cannot determine his gross margin and net profit without ascertaining the value of goods on hand. Thus, to be able to determine his merchandising results currently, the merchant must have current figures showing the amount of merchandise on hand Clearly, these current figures usually cannot be provided by physical inventories because of the prohibitive cost of making an actual count of all the merchandise in stock at such frequent intervals, for example, as once a week.[3] A book-inventory method provides these current figures; then, as has already been pointed out, these book figures can be checked periodically by the taking of a physical inventory.

The book-inventory figures may be kept on a cost or retail basis. If maintained at cost, the sales figure must be reduced

[1] In some cases, stores have the inventory calculations done by an independent calculating company.

[2] That is, sales, purchases, etc.

[3] Many retailers take a physical inventory only once a year and very few more than twice a year.

to a cost basis The cost of sales may be obtained by accumulating from day to day the cost of merchandise sold. When the merchandise is sold, the cost codes are transcribed from the price tickets onto the sales checks by the salespeople Later, these codes are decoded in the office and the cost figures added to obtain the cost of goods sold (cost of sales) for the particular period [1] With the cost-of-sales figure available for a period the closing book inventory at cost is determined as shown in the following example.

Beginning inventory at cost	$ 4,000
Purchases at cost	7,000
Total merchandise handled at cost	$11,000
Less cost of merchandise sold	6,500
Closing inventory at cost	$ 4,500

The above-described method of obtaining the book inventory at cost by accumulating the cost of goods sold during a period and then subtracting that figure from the total goods handled (at cost) obviously involves a large amount of detail and a great possibility of errors in transcribing and decoding cost codes. Also, the cost inventory determined in this way does not show the amount of the depreciation in the value of the merchandise, unless the cost codes have been adjusted to changing market prices.

When a book inventory is maintained on a retail-price basis, the purchases must be raised to a retail basis The closing book inventory at retail for a period is obtained as shown in the following example:

Beginning inventory at retail		$ 6,000
Purchases at retail		11,000
Upward revisions of the original retail price		150
Total merchandise handled at retail		$17,150
Net sales	$9,500	
Markdowns and discounts to customers and employees	450	
Retail reductions		9,950
Closing inventory at retail		$ 7,200

[1] This method is spoken of as the "costing of sales" or the "cost-auditing of sales"

The procedure of obtaining a book inventory at retail is treated at more length in the discussion of the *retail method of inventory* at a later point in this chapter.

Inventory Shortages.—If the amount of goods on hand as shown by the physical inventory, or count, is less than the amount that should be on hand as shown by the book-inventory figures, the difference is called the *inventory shortage.* For example, if the book inventory shows there should be $8,975 worth of merchandise in a department but the physical inventory reveals only $8,890 worth, there is an inventory shortage of $85. In case the physical inventory shows a larger amount of merchandise than is shown by the book-inventory figure, there is an inventory overage; however, the common condition is a shortage rather than an overage.

There are many possible causes of stock shortages. The number and the relative importance of the various causes naturally vary greatly among different stores and departments In general, the various reasons can be classified into three broad groups: (1) errors in the book-inventory figures; (2) errors in the physical inventory; (3) actual loss of merchandise through theft by employees or outsiders, breakage, and overweighing.

Errors in the book-inventory figures may be caused by mistakes in the receiving and marking operations, in the activities on the selling floor, or in other phases of the store procedure, such as the bookkeeping work. Examples of possible mistakes in the receiving and marking operations are errors in checking the goods received and failure to file claim or secure proper credit for shortage and breakage in the goods received Errors may be caused in the book figures by such mistakes on the selling floor as the selling of goods at incorrect prices due to illegible price tickets,[1] incorrect recording of sales, and the giving of price reductions to customers or employees without reporting such price reductions to the office An example of a bookkeeping error would be the charging of a duplicate invoice to the store or to a particular department when the original has previously been charged and paid.

[1] This might be due to poor marking in the marking room or to rough or careless handling of the price ticket on the merchandise in the selling department.

An inventory shortage may also arise from mistakes in the physical inventory. The reasons that have already been given are possible explanations for the assumed fact that the book inventory shows a larger amount of merchandise than there actually is; however, the shortage might be at least partly due to an understatement of the physical inventory The people engaged in making the physical count may have done inaccurate counting or recording, or there may have been mistakes in the extensions and calculations on the inventory sheets; as a result, the actual amount of goods on hand is understated. If the book inventory for a department is $5,000 and the physical inventory is $4,800, the inventory shortage is $200. But suppose the physical count is inaccurate and the accurate figure for the merchandise on hand is $4,900; then, although a shortage of $200 is shown, the actual shortage (that is, the difference between the correct figure for the actual merchandise on hand and the book figure) is only $100. It is evident, then, that if the physical inventory is to serve as an effective check on the book figure, it must be accurate.

The third general cause of inventory shortages is the actual loss of merchandise through breakage, overweighing or overmeasurement, and theft by employees or outsiders. These losses may occur at various points in the store For example, incomplete enclosure of the receiving and marking rooms or lack of control over the exits from stock rooms may lead to the disappearance of merchandise. Or, on the selling floor, inaccurate measuring equipment or carelessness on the part of salespeople may result in loss of merchandise.

The causes of shortages may also be grouped into the two general classes of clerical and physical causes. Clerical causes are those arising from miscalculations or incorrect entries of various kinds Charging a department with an amount larger than is warranted by the actual merchandise received would give rise to a shortage Physical causes include the theft or loss of merchandise through other causes, such as breakage or overmeasurement

Handling Inventory Shortages.—Because there is almost always a discrepancy between the book-inventory and the physical-inventory figures, the real question from the standpoint of the merchant usually is, not "Will there be an inventory shortage?"

but rather, "How large will the shortage be?" He usually can get a fairly definite answer to the latter question by studying the past records of his store. In his records a merchant may express the amount of inventory shortage, or stock shortage as it is sometimes called, either in terms of dollars or as a percentage of sales

Looking over his records a retailer may see that his inventory shortages have averaged about 2 per cent of sales. Ordinarily, then, he may reasonably expect 2 per cent during the coming season. Some merchants figure this anticipated shortage into their prices by adding it to the cost of the merchandise when determining the retail price.[1]

If the actual shortage (or overage) is considerably greater than the estimate, the inventory figures should be checked As previously pointed out, the accuracy of the net-profit figure is dependent upon the accuracy of the physical inventory; therefore, if the unusually large shortage is due to a mistake in one of the inventories, it is essential that, so far as possible, the error be shown to be definitely in the book figures or in the physical inventory

When a physical inventory is taken at the end of a period and used as a check on book figures, the beginning inventory for the next period, to be used in determining the book inventory during the period, is the physical inventory for the close of the previous period rather than the closing book inventory. For example, if on Dec. 31, 1941, the book-inventory figure for a store is \$95,550 and a physical inventory on that date shows \$93,625, the physical-inventory figure of \$93,625 will be taken as the beginning inventory for the following year and will be used in figuring the book inventory during the year 1942. In this way, correction is made in the book figures at the end of the period for the amount of inventory shortage.

A merchant should study the various causes of inventory shortages to see whether or not he can eliminate or lessen the importance of any of the factors Because shortages decrease the amount of profits, any elimination or lessening of them means an increase in the profit of the store.[2] In many stores,

[1] In Chap. XI, "Pricing the Merchandise," the amount of estimated shortages was mentioned as one of the factors entering into the determination of the amount of initial markup required

[2] The effect of stock shortages on the net profit of a store should be

more efficient checking and control of the causes of shortages are resulting in lower inventory-shortage figures.

Retail Method of Inventory.—The retail method of inventory is a plan of merchandise accounting that provides a means of obtaining a closing book inventory at retail and a method of reducing this retail inventory to cost. Thus, at any time, the merchant or buyer can determine the value of the inventory on hand and consequently his gross-margin and net-profit showing without taking a physical inventory. When the annual or semiannual physical inventory is taken, the physical count is taken at retail prices and the retail-inventory amount is then converted to cost The method has been widely adopted, especially among the larger stores

The operation of the retail method of inventory may be stated briefly as follows.

The beginning inventory for the period is entered at both cost and retail figures [1] Then the purchases are accumulated at both cost and retail; the sum of the opening inventory and the purchases makes available the total cost and the total retail figures for all merchandise handled during the period. The difference between the total cost and the total retail figures is the amount of initial markup for the period. This markup in dollars divided by the total retail figure gives the initial markup as a percentage in terms of the retail figure.

From the total retail figure are subtracted the net sales plus net markdowns (gross markdowns less markdown cancellations); the remainder is the book figure for the closing inventory at retail. This retail inventory can be reduced to cost by multiplying it by the complement of the percentage of initial markup (100 per cent minus initial markup percentage) [2] By subtracting the closing cost inventory from the total cost figure the gross cost of merchandise sold is obtained.

The following form for computing inventory by the retail method has been approved by the Controllers' Congress of the

---

evident to the reader after a study of the following discussion of the retail method of inventory See particularly pp 298–299

[1] See discussion of the installation of the retail method of inventory, pp. 303–304.

[2] If a physical inventory is taken at the end of the period, the closing cost inventory is obtained by reducing the physical-inventory retail figure to cost. See p. 298.

N.R.D G.A.[1] An example has been worked out on the form in order to show definitely how it is used.

RETAIL METHOD OF INVENTORY FORM

Line	Item	1 Cost	2 Retail	3 Markup	4 Markup, per cent
1	Opening inventory (lines 9 and 11 of preceding inventory)	$ 4,000	$ 6,000	$2,000	33 33
2	Purchases	6,000	10,000	4,000	40.00
3	Freight, express, and cartage inward	120			
4	Additional markups, less additional markup cancellations		150		
5	Total—inventory plus additions	$10,120	$16,150	$6,030	37 34
6	Net sales		$ 9,870		
7	Markdowns, less markdown cancellations		600		
8	Total retail reductions		$10,470		
9	Closing retail inventory (line 5 minus line 8)		$ 5,680		
10	Calculation of cost percentage *a* Total percentage 100 00 *b* Percentage of markup (line 5, column 4) 37 34 *c* Percentage of cost ($a - b$) 62 66				
11	Inventory at cost (item 10c applied to item 9)	$ 3,559 09			
12	Gross cost of merchandise sold (difference between cost inventories on lines 5 and 11)	$ 6,560 91			

Explanation of the Form—The cost and retail figures for the opening inventory shown on line 1 are the cost and retail figures for the closing inventory of the preceding period. The next period to follow the one covered in this form will have for its opening inventory $3,559.09 at cost and $5,680 at retail, which are the closing inventory figures for this period. The difference

[1] The form presented here has been modified slightly.

between the cost and retail figures in line 1 is the $2,000 markup shown in column 3, and this dollar markup divided by the retail figure gives the percentage of markup shown in column 4

Line 2 gives the amount of purchases both at cost and at retail since the last inventory, and from these two figures are computed the markup in dollars and the percentage of markup shown in columns 3 and 4 of line 2. The cost of getting the goods from the shipper to the store is properly a part of the cost; therefore, line 3 shows the amount spent for in-freight, express, and cartage on the purchases shown in line 2. As shown in the example, these transportation charges affect only the cost column.

At times, the price of certain articles is raised after they have been given their original price These additional markups are added to the retail column because, so far as the total initial markup for the period is concerned, they increase the amount of markup just as much as it would have been increased if the goods had originally been priced at the higher figure. In the form, line 4 shows the amount of net additional markups, that is, additional markups less any cancellations of these additional markups. If a silver vase has been marked at $135 and the buyer feels that it would bring $150, he raises the price to that figure Then, feeling that the price is too high, he changes it to $145. The original price is $135, and the net additional markup amounts to $10 (additional markup of $15 less a markup cancellation of $5).

Line 5 shows the total cost and retail figures for all the merchandise handled The $10,120 found in line 5, column 1, is the total at cost of the opening inventory plus the purchases plus the transportation charges. The retail figure in column 2, line 5, is the total at retail of the opening inventory plus the purchases plus the net additional markups. The total markup of $6,030 is the difference between the total cost and the total retail figures.[1] By dividing the dollar markup of $6,030 by the total retail figure of $16,150, the initial markup percentage of 37 34 is obtained.

At this point, it should be mentioned that any transfers of merchandise among departments must be considered in the determination of the initial markups for the departments

[1] It should be noted that the figure $6,030 is not determined by adding the figures in column 3 on lines 1 and 2.

involved. If the transfers into a department exceed the transfers out of the department, the net "transfers-in" at cost and at retail should be added to the cost and retail columns in the form just as purchases are added.[1] On the other hand, if "transfers-out" exceed the "transfers-in," the net "transfers-out" must be subtracted at both cost and retail from the total cost and total retail figures

Line 6 in the form gives the net-sales figure (gross sales minus returns and allowances to customers). Line 7 shows the net markdowns, that is, gross markdowns less any markdown cancellations. To illustrate the idea of net markdowns, suppose that a buyer takes a markdown of $2 per dress on 30 dresses for a special sale Twenty of the dresses are sold during the sale, and the remaining 10 are marked up to the original price The gross markdowns would amount to $60, and the markdown cancellations would be $20, net markdowns of $40 being left.

Both net sales and net markdowns are reductions from the total retail figure The total of net sales (line 6) plus net markdowns (line 7) is shown in line 8 as the total of retail reductions. Any discounts to employees and customers should also be included as retail reductions. In some instances a figure for estimated shortages also is included. In order to get the closing book inventory at retail, the amount of total retail deductions (line 8) is subtracted from the total retail figure in line 5, column 2. In the example shown in the form the closing inventory at retail is $16,150 minus $10,470, or $5,680, as shown on line 9

Line 10 shows the calculation of the cost percentage, which is to be used to reduce the retail inventory to a cost basis. The cost percentage is the complement of the initial-markup percentage. The markup percentage of 37.34 (line 5, column 4) subtracted from 100 per cent (line 10*a*) gives 62 66 per cent (line 10*c*), which is the cost percentage.

The next step is the reduction of the retail inventory to a cost basis On line 9 is shown the closing inventory at retail of $5,680. This figure multiplied by 62.66 per cent, the cost percentage, gives $3,559.09 (line 11), which is the closing inventory at cost

[1] For example, if the "transfers-in" during a period are $600 at cost and $900 at retail and the "transfers-out" are $400 at cost and $600 at retail, the "net transfers-in" are $200 at cost and $300 at retail. These net figures should be added to the cost and retail columns.

Determining Gross Margin.—The gross cost of the merchandise sold is found by subtracting from the cost total of inventory plus additions (line 5, column 1) the closing inventory at cost (line 11); the resulting figure is $6,560 91 (line 12, column 1). As has been pointed out in an earlier chapter, gross margin is the difference between net sales and total merchandise costs.[1] The gross cost of goods sold minus cash discounts on purchases plus alteration and workroom costs equals total cost of goods sold Assume, for purposes of illustration, that, in the example just given, cash discounts amounted to $350 and alteration and workroom costs to $110. Then the total cost of goods sold would be $6,560 91 (gross cost of goods sold) less $350 (cash discounts) plus $110 (alteration and workroom costs), which would be $6,320 91. By subtracting this $6,320.91 (total cost of goods sold) from the net sales of $9,870 (line 6, column 2) the gross margin figure of $3,549.09 is obtained. The percentage of gross margin is 35 96, found by dividing the gross margin of $3,549.09 by the net sales of $9,870 The net profit for the period would be determined by subtracting the expenses for the period from the gross margin.

Use of Retail Method of Inventory When Physical Inventory Is Taken.—The formula explained above is that used for the retail method of inventory when a physical inventory is not taken. When a physical inventory is taken, the retail[2] value of the inventory as shown by the actual count is checked with the book-retail-inventory figure to determine the amount of inventory shortage or overage. The correction for the shortage or overage (ordinarily there is a shortage) is made by deriving the closing cost inventory from the physical retail inventory rather than from the book retail inventory. To illustrate, suppose that in the example given in the form above a physical inventory had been taken at the end of the period and had shown a retail figure of $5,570 This figure is $110 less than the book retail inventory of $5,680 (line 9, column 2); thus, there is an inventory shortage of $110. If the closing cost inventory is derived from the book figure of $5,680, the shortages have not been taken into account and the closing inventory is overvalued; this would result

[1] See p. 209.

[2] When a store is using the retail method of inventory, the physical inventory is taken at retail prices.

in an understatement of the cost of goods sold and a resultant overstatement of net profits. The correct procedure would be to reduce the physical-inventory figure to cost by multiplying it by the cost percentage (complement of the initial-markup percentage).

If a physical count of the merchandise is not made, the shortages can be estimated on the basis of past records and subtracted from the book retail inventory to give the estimated physical retail inventory, or the estimated shortages may be added to the sales, markdowns, and other retail reductions; this, of course, results in a lower book-inventory figure.

Advantages of the Retail Method of Inventory.—One advantage of this method is that it gives the buyers or other store executives the needed merchandising information currently and thus is an effective agency in merchandise control. It is not necessary to wait six months or a year for a physical inventory to get information upon which to make or alter merchandising plans. For example, if a merchant wants to know the value of the stock on hand in order to determine the gross margin maintained in a certain department, he can get that information quickly by this method. Because a book inventory can be obtained at any time, the buyer can have continually an up-to-date picture of conditions in his department. He can see whether he *is* maintaining a satisfactory gross margin during the season, rather than whether he *has* maintained it. This current check on his results gives him a chance to protect his profits before it is too late.

As a second major advantage, it is easier to take a physical inventory when the store is using the retail method of inventory. There is only one price, the selling price, to record; this eliminates the copying of cost prices in code and their decoding, with the resulting mistakes and inaccuracies. Under the retail-inventory method the cost of the merchandise can be derived simply by applying the average cost percentage (complement of the initial-markup percentage) to the retail price of the merchandise. Taking the inventory at retail figures also eliminates the need for judging or determining the present market cost of the merchandise.

The third important advantage of the retail method of inventory is that if proper markdowns are taken the method prac-

tically automatically depreciates the inventory to the proper market value. Under the cost method of inventory, as previously pointed out,[1] it is necessary at inventory time to determine the proper cost valuation of the items in stock. In many instances the current worth of an article is quite different from the original cost. In attempting to determine "cost or market, whichever is lower," accurate wholesale market prices on certain articles may not be available and to estimate market values is not very accurate or dependable because of variations in opinions as to the value Under the retail method of inventory the cost values are determined upon the basis of the marked selling price. Thus, when the retail price of an article is marked down, the cost value of the item is automatically reduced.[2] If proper markdowns are taken and the retail method is properly operated otherwise, it provides a cost valuation of inventory, which is essentially "cost or market, whichever is lower"

Limitations of the Retail Inventory Method—A disadvantage of the retail method of inventory that many would mention is the difficulty of understanding it. It is different from the older inventory methods and so requires some adjustment in the merchant's thinking. He must become accustomed to thinking in terms of retail prices and derived costs rather than actual costs of articles This first possible objection to the retail-inventory method is, of course, only a passing one. In fact, after a department buyer has become accustomed to the method, the fact that it causes him to think in terms of selling prices rather than costs may be considered an argument for the method.

A second disadvantage, and one that seems important to some merchants, is that this method requires a greater volume of record keeping than is necessary with the cost method of inventory. As goods come into the store, their price must be recorded both at cost and at retail Every type of change in price must be recorded with care and kept separate from other types. As an example, a markdown cancellation must be treated separately from an additional markup, although they

[1] See pp. 283 and 284

[2] Markdowns are treated as reductions from the total retail figure of goods handled. Thus a markdown decreases the amount of the closing retail inventory and, because the cost inventory is derived from the retail figure, results in a lower cost inventory.

seem to be of the same nature in that they both are upward changes of price.[1]

The most important weak point in the retail method of inventory is that it is a system of averages and an average is not always truly representative. As has been shown, the cost inventory at any time is derived by multiplying the retail value by the complement of the initial markup for the period This cumulative markup is really an average markup, for it expresses the relation between the total cost of all merchandise handled to date and the total retail of the same merchandise The basie assumption underlying the whole retail-inventory method is that this average markup represents the relationship between the cost and retail values of the inventory on hand at any particular time This is not likely to be the case unless the store has classified its merchandise with reference to markup and rate of stock turn before installing the retail method of inventory.

The merchandise within a department may include some items with a high markup and others with a low markup Unless these move at the same rate, the "average" markup shown by the retail-inventory method will not properly represent the relation between the cost and retail of the items remaining in stock, thus, if this "average" markup is used to reduce the retail inventory to cost, the cost inventory will be either overvalued or undervalued, according to whether the low-markup or the high-markup items have sold out of their proper proportion An example will make this point clear. If a store buys 6 shirts at \$1 to sell at \$1 50 and 6 at \$2 to sell at \$2 50, the total cost value is \$18 and the total retail is \$24, which represents an average markup on the two lots of shirts of 25 per cent. Now, suppose the store sells all the \$2 50 shirts (on which the markup is 20 per cent) and 1 of the \$1 50 shirts (on which the markup is 33 33 per cent). The retail-inventory figure for the remaining shirts is \$7.50 (5 shirts at \$1 50 each). According to the retail method of inventory the closing cost inventory would be 75 per cent (100 per cent − 25 per cent) of \$7 50 or \$5 625 However, the 5 shirts left cost \$1 each, a total of \$5. On this small amount the retail

[1] An examination of the retail-method-of-inventory form on p. 295 will indicate why these two forms of price change must bo carefully distinguished. Additional markups affect the determination of the initial markup for the period, whereas markdowns do not

method results in an overvaluation of $62\frac{1}{2}$ cents; this is due to the fact that the shirts with the lower markup sold more rapidly than the others

The same difficulty as shown in the above example results when a department puts on a special sale of low-markup goods or of a job lot that carries a low markup. These goods carrying a low markup will move faster than the regular merchandise Of course, that is the intention of the buyer, but it does make for inaccuracy in the retail method of inventory Only when high- and low-markup merchandise sell at the same rate will the "average" markup be an accurate one

Evaluating the Retail Method of Inventory.—Possibly the best way to judge which are the more important, the advantages or the disadvantages, is to look at the experience of those retailers using this method From their experience, they feel that the advantages to be gained from this method outweigh any disadvantages. Recently, however, there has been considerable criticism of the method, particularly from the standpoint of its effect upon pricing and other merchandising activities It has become evident that, in some instances, it apparently has resulted in too much "figure" merchandising and has led to inflexibility in pricing and merchandising policies. This criticism is obviously directed primarily at the way in which the method is operated and used in many stores rather than at the basic nature of the system itself. The real question is not whether or not the retail method should be discarded but rather how can it be modified or controlled so as to eliminate or lessen possible weaknesses or misuse of the method.

The practicability of the system in any case depends upon such factors as the size of the store, the frequency of markdowns, the number of items carried in stock, the variation in the markups and rate of sale of the items carried, and the type of merchandise [1] Each merchant has an individual case and should adopt or reject the retail method of inventory only after having thoroughly considered conditions in his store and having balanced the

[1] In large stores in which the retail method is in general use, some departments are ordinarily operated on a cost basis. These are chiefly departments involving considerable processing, manufacturing, or other special activities, rather than just the selling of merchandise in the same form or manner it was received.

benefits to be obtained against the cost of operating the system

Installing the Retail Method of Inventory.—As the successful operation of the method is dependent to a considerable extent upon its proper installation, a brief discussion of that step will be given at this point. There are three essential parts to the installation of the retail-inventory method. The first is to departmentize or classify the merchandise so that each group contains merchandise of approximately the same markup and rate of turnover. The reason for this has already been discussed This first requirement probably is one reason why the method is more commonly used in large stores than in small—the large ones are more likely to be departmentized to an extent that will make the method workable.

It would be impossible to have a significant "average" markup for a department store as a whole because of the great differences in markup and turnover among the various items handled. By this method of departmentizing an inventory figure can be obtained for each department or its subdivisions, and the total of these will give the amount of the inventory for the store as a whole

The second essential for the installation of the retail-inventory method is a physical inventory at cost and at retail of the merchandise on hand These two figures are the information required on the first line of the retail-method-of-inventory form.[1]

The third requirement is a means of getting the information needed to operate the retail method of inventory. This requires the keeping of a record of all purchases at both cost and retail value, of all additional markups and markup cancellations, of transportation charges on goods coming into the store, of all markdowns and markdown cancellations, and of discounts to employees and customers. If an accurate means is not provided for securing all this information, the resulting figures shown by the method will be incorrect. It is very important that all price changes be accurately recorded; this means that every department must have a system for recording every deviation from the original marked price Any removal from a department of merchandise not included in sales must also be noted; this would include returns to manufacturers and transfers

[1] See p. 295.

of merchandise from one department to another or among stores in a chain or group.[1]

[1] The changing from the cost method of inventory to the retail method must conform with the requirements of the income-tax regulations and with sound accounting practice. For a discussion of this matter, see *The Retail Inventory Method in Practical Operation*, Controllers' Congress, National Retail Dry Goods Association, 1932. This publication also contains helpful descriptions and examples of the forms and procedures involved in the operation of the method.

CHAPTER XVI

EXPENSE CONTROL

Meaning.—In a broad sense, expense control represents the entire activity that results in reasonable expense operation[1] It includes the proper classification of expenses, the equitable distribution[2] of these expenses among the selling departments, and the analysis of expense showings in order to have a sound basis for planning reductions in any expenses that are too high or increases in any expenses where such action will result in greater net profits through the effect upon sales. From the standpoint of store organization, expense control involves the provision of the mechanism for watching and checking expenses; from the standpoint of store operations, it relates to the economical operation of the business with the necessary adjustments between economy and service requirements.

Purpose and Importance of Expense Control.—The merchant's primary interest is that of making a profit from the operations of his store. Expense control, as well as all other store activities, should work toward that desired end The net profit of a store or department is determined by the amount by which the gross margin exceeds the expenses If the expenses are too large, the hoped-for profit disappears If the expense element can be lessened by control, the net profit can be increased It is because of this vital connection between the elements of gross margin, expenses, and net profits that the merchant continually must watch and check the expenses of his store.

[1] MAZUR, PAUL M , *Principles of Organization Applied to Modern Retailing*, p 158

[2] In many stores the expenses are considered simply for the store as a whole, and no attempt is made to break up the expenses among the various sections of the store, this is especially true in small stores which have little or no departmentalization, and it is also true in some larger stores in which the store executives feel that the effort of distributing expenses (especially indirect expenses) is not compensated for by the benefits obtained.

Realizing the close connection between the expense element and the amount of net profit, some merchants too zealously attack the problem of expense control, with the resulting tendency to eliminate or lessen certain expenses that are essential to the satisfactory performance of the store's functions. Expense control should be thought of by the retailer not as expense "cutting" but rather as expense "saving." Instead of simply eliminating certain expenses in order to cut the expense total to the lowest possible level, the merchant should analyze carefully the operating needs of the store with the idea of eliminating any unnecessary expenses. Expense control in this sense of expense saving thus involves cutting down or eliminating only those expenses which, after careful consideration, are shown to be unnecessary for the proper maintenance of the store's operating and service standards In some instances, it may be advisable to increase expense items as a part of the expense-control activity. For example, increased advertising expenditures might produce additional sales and result in an expense saving, in the sense that the higher total dollar expense amount was lower in terms of the sales obtained

With expense control thought of in terms of expense saving, it is evident that it is largely dependent upon a method of *knowing* expenses Only as expenses are seen in their true light—that is, in relation to their probable effect upon sales and profit—can one tell whether or not they are productive All productive expenses must be kept, or added, and all unproductive ones eliminated Expense control is a plan for reducing expenses only in the sense that it leads to the elimination of the unproductive ones. A properly prepared expense-control plan shows the reason for expenses; from this and his past experience the merchant or buyer should judge as to the probable effect of the expense items upon the sales and profits of the store or department.

A study of expenses reveals the store itself in the light of a consumer. It is consuming twine, light, time, etc If each item is studied from a consumption standpoint, new methods and uses may be devised to reduce expenses and still accomplish the purpose for which the expenses are incurred. The various savings resulting may seem small when viewed separately; but where the total saving is known, it will be a sizable addition to net profits.

For several years, various writers have called attention to the rising costs of retailing. Much has been written in books and trade papers and discussed at conventions and conferences concerning the importance of expense control. However, in the case of many merchants and stores, very little action was taken until the severe depression of the early 1930's practically forced them into the adoption of expense-control methods. Even those merchants who thought they had very effective expense control found new methods; and many radical changes in operating procedure, which formerly merely were discussed theoretically, were actually tried out.

Although a depression period forcibly calls attention to the need for expense control, the need for a proper control over the expense items is ever present and the retailer should constantly be attentive to possible new methods of expense saving In considering the adoption of steps that offer the possibility of a lower operating expense, the merchant must give proper consideration to such basic factors as the kind of store, its sales volume, the type of trade to which he wishes to appeal, and the services that should be offered [1] Without this attention to the basic operating needs and service standards of the store, the adoption of new ways of reducing expenses may injure customer good will, which is essential to future business and profits.

Classification of Expenses.—Expense classification is the grouping of expenses into groups or classes according to some definite scheme A definite plan of classifying expenses helps the retailer or buyer keep a more definite control over the various expense items in his store or department As has been pointed out, expense control requires on the part of the merchant a good knowledge of his store expenses. Without a definite system of classifying expenses, he has no satisfactory basis for analysis and study of the items making up the total expense figure and thus can have only a highly limited knowledge of the expenses of his business. A systematic classification of expenses also is necessary as a basis for any distribution of expenses among the various departments that the merchant may wish to make.[2] A third advantage of a definite system of expense classification is

[1] For example, expense reductions that lead to insufficient service or to inaccuracies and errors in the operations of the store should not be made

[2] The distribution of expenses is discussed at a later point in this chapter

that it makes possible comparisons with the operating results of other stores or departments. If stores are to compare operating figures, the data must have a common basis; therefore, in any comparison of expenses, the accounts that carry the records of these expenses must be of a similar composition.

Types of Expense Classifications.—There are two general types of expense classification in common use in the retail field One type, which is called a "natural" classification, is based upon the nature or kind of the expense regardless of its use or function Thus, expenses would be classified as pay roll, rent, supplies, taxes, and so forth. The number and exact titles of such natural expense groups would vary with the character and size of the retail store The other chief method of classifying expenses is on a functional basis Under a functional classification, expenses are classified according to the purpose or function for which they are incurred. Thus, the natural expense of *supplies* might be subdivided and grouped into such functional groups as buying, selling, and administrative, depending upon the particular purpose or function for which different supplies are used.

Although both the large store and the small store perform approximately the same functions, there are marked differences both in the scale on which these operations are carried on and in the amount of details involved. So far as expenses are concerned, a small store will have neither the necessity nor the ability to classify expenses to so detailed a degree as a large store. The retailer of the small store in most cases will classify his expenses only by natural divisions or classes In a small store the same person ordinarily performs a number of functions; for example, he may buy the merchandise, write the advertisements, and help in selling the merchandise.[1] This makes it practically impossible to allocate his salary accurately into the different functions performed. Similar difficulties would be met in attempting to allocate the other natural expenses to functional groups.[2] In a larger store the various functions of the store are more clearly differentiated, and accurate records can be kept

[1] See the organizational chart of a small retail store, (p. 98).

[2] It should be mentioned that in the small store not only is there the difficulty of classifying expenses functionally but, in addition, and this may be more important, an elaborate classification on a functional basis probably would be of little real value to the merchant.

classifying expenses on the functional basis as well as by natural divisions or classes.

Standard Expense Classification of the Controllers' Congress. A standardized expense classification developed by the Controllers' Congress of the National Retail Dry Goods Association is in wide use in department stores and in departmentized specialty stores This standardized system of the Controllers' Congress is so planned that each expense account can be expanded or contracted to suit the size and needs of the store. Large stores follow the same general procedure as small stores, only on a much more elaborate scale. Thus the expense-classification system is sufficiently flexible to be used by stores with widely different sales volumes Because this expense classification of the Controllers' Congress has received much wider consideration and adoption in the retail trade than has any other and also because it illustrates the two major types of expense classification, it will be discussed more fully.

Under this standardized system, expenses may be classified into: (1) natural divisions; (2) functional divisions. There are 14 natural divisions; these are the major divisions into which expenses normally fall This classification is based upon the nature or kind of the expense, regardless of its use or function; for example, any amount paid for wages or salaries is classified as pay roll, regardless of whether it is a payment to an administrative officer, to a janitor, or to a person performing some other type of store work.

There are five functional divisions of expenses. These follow closely the major functions of a store, and the expenses are classified into the various groups according to the purpose or function for which the expenses are incurred. For example, to continue with the illustration of the pay roll expense, that part of the pay roll expense which is a payment of executive salaries is classified under the administrative functional group, that part which is a payment to janitors goes into the occupancy group, that part which is a payment to salespeople goes into the selling functional group, and so forth.

Natural Classification of Expenses.—The 14 divisions that are the basic expense accounts of the store are as follows[1]:

[1] The definitions of these natural-expense divisions are given here in condensed form. For supplementary details and qualifications, the reader is

1. *Pay Roll.*—This covers all forms of salaries and wages paid to employees. Both regular and special payments such as commissions, bonuses, and "P M.'s" are included. A small store would include here the salary paid to the owner.

2. *Rentals.*—Rentals include only the "amounts incurred, or payments actually made, for the rental of all properties used in the operation of the business"[1] These properties include land, buildings, fixtures, and equipment.[2] Taxes, interest, maintenance supplies, repairs, insurance, and depreciation on owned property should not be charged to rentals but rather to the other natural division applicable in each case.

3 *Advertising.*—This includes all expenses for all forms of advertising. The cost of newspaper advertising ordinarily is the most important item In addition, other forms are periodical advertising, direct-mail advertising, radio advertising, billboards and streetcar cards, novelty advertising, and other miscellaneous forms. The salaries and wages of the employees in the publicity department are included in the first division of pay roll rather than in this advertising division.

4. *Taxes*—Taxes include all taxes levied by any branch of the government, municipal, county, state, or Federal, upon the merchandise, fixtures and equipment, land, buildings, accounts, and money of the store, with the exception of income taxes.[3] This division also includes any corporation taxes, license fees, or internal-revenue taxes. Pay-roll taxes also are included.

5. *Interest*—In this division is included an interest allowance on the capital invested in certain assets. This allowance is determined by charging interest at the rate of 6 per cent per annum on the cost value of the merchandise inventory at the beginning of each month, and by charging interest at 6 per cent on the fair estimated present-day valuation of all capital assets, such as land, buildings, leaseholds, and fixtures and equipment, used in the operation of the business This account also is

---

referred to *The Expense Manual*, Controllers' Congress, National Retail Dry Goods Association, 1937.

[1] *Ibid*, p 2

[2] Charges for the hire of delivery rolling stock and of tabulating and similar equipment belong under the natural division "Unclassified."

[3] Income taxes are treated as a deduction from net profit rather than as an operating expense of the business.

charged "for the adjustment of rentals paid for leased properties used in the operation of the business."[1] If the fair estimated present-day rental value of the leased properties exceeds by a material amount the actual rentals being paid, this interest account is charged with an amount equivalent to the excess.

Interest actually paid on mortgages and other borrowed money is excluded from operating expenses and considered as a non-operating item; such interest payments, therefore, would not be included under "Interest" in the natural classification of operating expenses.

6. *Supplies.*—This division includes all types of supplies consumed by the different divisions of the store in operating the business, such as pencils, coal, wrapping material, boxes, bags, twine, sales books, and stationery It does not include materials for repair, which are charged to the natural division "Repairs"[2]

7. *Services Purchased*—This item includes the cost of the three following services when they are purchased from outside sources: (1) cleaning service in connection with operating and housekeeping; (2) light, heat, and power; (3) delivery service

8 *Unclassified*—This includes all expenses that are not provided for in the other natural divisions Examples of the items falling into this division are welfare expenditures, memberships in organizations, cash donations, entertainment, classified advertising when used to secure additional employees, cashier shortages, carfare, inspection fees, fraudulent purchases, publication subscriptions, and bad debts.

9. *Traveling.*—Traveling includes all expenses incurred in connection with travel for the business by any officer or employee of the store. These expenses include transportation, meals, hotel bills, tips, taxicab fares, and incidentals.

10 *Communication.*—This includes postage (except parcel-post charges on packages), telephone rentals and tolls, telegrams, radiogram and cable charges, and any other communication expenses.

11. *Repairs.*—This includes the cost of repairs to buildings, fixtures, and equipment of all kinds. It does not include expenditures for new equipment or for major improvements that

[1] *The Expense Manual, op. cit.*, p. 3

[2] Publication subscriptions are classed under "Unclassified" rather than under "Supplies"

materially add to the length of life or value of the equipment or property; such expenditures should be charged to the appropriate capital-asset accounts.

12. *Insurance.*—This division includes all expenses for all types of insurance, including fire, theft, sprinkler leakage, use and occupancy, burglary liability, and the many other forms.

13. *Depreciation.*—This division includes the depreciation on the book value of buildings, furniture, fixtures, and equipment, and the amortization of the book value of leaseholds and improvements to leased properties[1] Because these assets decrease in value each year, the common practice is to charge off each year (or other accounting period) a certain part of the cost value of the asset as an expense for that year. This is done by charging "Depreciation Expense" and crediting an allowance-for-depreciation account for the amount written off; this allowance-for-depreciation account is a contra account to the asset account to which it applies.[2] For example, suppose a fixture costing $100 is expected to last 10 years and at the end of that time will have no scrap value. On the assumption that it is to be depreciated by the straight-line method (that is, an equal amount to be charged off each year), it will be depreciated 10 per cent of its cost value each year, or $10; thus, each year, $10 will be charged to "Depreciation."[3]

14. *Professional Services*—This division includes the costs of all services of a highly specialized character purchased from outside professional agencies; examples are accounting and auditing services, legal advice, advertising surveys, appraisals, services of domestic- and foreign-buying agencies, information from credit and collection associations and bureaus, and secret services.[4]

As previously mentioned, a small store may consider these 14 natural divisions[5] as a sufficiently detailed method of expense

[1] *The Expense Manual, op cit.*, p. 6.

[2] That is, it shows the amount to be deducted from the cost value shown in the asset account in order to get the depreciated or actual value of the asset.

[3] Under the standard-expense classification of the Controllers' Congress, losses from bad debts are included under "Unclassified"

[4] Financial or economic services which are issued regularly like publications are chargeable to the natural division "Unclassified," rather than to "Professional Services."

[5] For a discussion of *contra credit* accounts, which are deductions made

classification. If desired, they can be subdivided into numerous finer divisions. For example, the division "Communication" might be subdivided into "Telephone Rentals," "Telephone Tolls," "Telegrams," "Cablegrams," "Postage," and "Sundry."

Functional Classification.—Those stores wishing to classify expenses according to purpose or function use the functional classification of expenses in addition to the natural classification. Each of the natural-expense divisions is broken up into these functional groups, which follow closely the common functions of a store. Thus, not only has the store information on the distribution of total expenses by natural divisions, but it also has figures showing the relative proportions of the store operating expenses due to the administrative function, the buying function, and each of the three other major functional groups The functional groups may be briefly explained as follows:

1 *Administrative* —This group includes the general administrative expenses of the store as a whole which are not chargeable directly to any one division of the store. It includes the expenses of the executive, accounting, and accounts-receivable and credit offices Also included under this administrative group are all expenses related to the superintendency of employees (employment, training, and so forth), the expenses of certain general customer services (checkrooms, telephones, transfer and exchange desk, etc.) and general store expenses.

2 *Occupancy* —This functional group includes all expenses arising from the use and maintenance of the store buildings, fixtures, and equipment.

3 *Publicity* —Publicity includes all items of expense connected with advertising and window display

4 *Buying.*—This group includes all the expenses of buying the merchandise, including all costs incurred in outside buying offices or connections, the expenses of receiving, checking, and marking the goods, and the costs of any merchandise-comparison office or department

5 *Selling* —Selling includes all expenses incurred in the selling of the merchandise, from the time it is received in the department up to and including the delivery to the customer.

---

from the natural divisions of expense when functional-expense items are charged to a cost-of-sales account or to an asset account, see *The Expense Manual, op. cit.*, p. 6.

These expenses are of three general types: the compensation of salespeople; general selling expense, such as costs of wrapping and packing, costs of selling-floor supervision, and many other items; and delivery expense.

Subfunctional Divisions.—As the size of a store increases, the above five functional groups may be broken down into subfunctional divisions. These five functional groups may be divided as follows according to the size of the store[1]:

Small Store 5 divisions	Medium-sized Store 11 divisions	Large Store 18 divisions
1. Administrative	Administrative	Executive office Accounting office Accounts receivable and credit office Superintendency General store
2. Occupancy	Operating and housekeeping Fixed plant and equipment costs Light, heat, and power	Operating and housekeeping Fixed plant and equipment costs Light, heat, and power
3. Publicity	Advertising	Sales-promotion office Newspaper and general advertising Direct mail
	Display	Display
4. Buying	Merchandise management and buying and outside buying offices Receiving and marking	Merchandise management and buying Domestic- and foreign-buying offices Receiving and marking
5 Selling	Compensation of salespeople General selling Delivery	Compensation of salespeople General selling Delivery

National Retail Hardware Association Expense-control Form. The following form and explanation are given as an example of the aid furnished by a retail-trade association to its members in the important task of classifying and controlling expenses in their stores This expense-control form was devised by the National Retail Hardware Association for the use of its retail-

[1] *Ibid.*, pp. 110–111.

EXPENSE-CONTROL PLAN
National Retail Hardware Association

Expense classification	January Estimated	January Actual	February Estimated	February Actual	March Estimated	March Actual	December Estimated	December Actual
Management and selling: A Salaries, owner								
B Salaries, clerks								
C Salaries, office								
D Office supplies, postage								
E Advertising								
F Donations								
G Store supplies								
H Telephone and telegraph								
I Losses, notes, and accounts								
J								
Delivery K Salaries, delivery								
L Other delivery expense								
M Depreciation, delivery equipment								
Occupancy. N Depreciation, furniture, fixtures, tools								
O Depreciation, building								
P Rent								
Q Repairs								
R Heat, light, water								
General S Insurance								
T Taxes								
U Interest, borrowed money								
V Association-Com. Club Dues								
W								
X Unclassified								
1 Total expenses								
2 Preceding month's total								
3 Monthly expense								

store members and has been planned especially for the small-store merchant who must prepare his own data.

The form includes on one page monthly statements over a year's time of the estimated and actual expenses for 24 expense items. Each of these separate expense items is entered cumulatively; for example, the owner's salaries entered in the March column include these salaries for January, February, and March. In this way, when a column for a particular month is filled in, it shows the amount that the store planned to spend for each item and the amount it actually has spent up to and including that month.

Postage on advertising matter is included in line E and not in line D. Line J may include collection expense, salary for receiving clerk, porter, and watchman, the costs of operating salesmen's cars, shop expense, or special commissions to others than employees. The merchant chooses the most important one of these for line J and then puts the others in the unclassified space (line X).

Line W is used for one of the following: travel account, city license, carfare, or any other special expense items. This line is used for the most active one of these headings, and then the remaining items of this group are put in the unclassified space. Line X includes all expenses for which provision has not been made under any of the other headings.

Line 1 shows the total expense for the year to the end of each month. On line 2 is entered the total expense from the preceding month. As an example, in March in line 2 is entered the total expense from line 1 of February. Line 3 shows the difference between line 2 and line 1, which gives the expense for each month.

Expense Distribution.—In stores with a number of selling departments, the common practice is to divide the operating expenses among the various departments for which they are incurred. This charging of the operating expenses to the individual departments is called "expense distribution." This distribution of expenses shows the merchant to what extent each department is responsible for the operating expenses of the store and aids him in judging the profitableness or unprofitableness of each department. Also, to the extent that stores use standardized bases for distributing expenses, they

can compare results among similar departments in the various stores.

When an expense is incurred directly by one department, the distribution of the expense is a simple matter, for it can be charged directly to the department causing it; an item of this type is called a *direct expense* To illustrate, a certain department orders $50 worth of supplies; another department has six salespeople who devote all their time to that department; and another department has a buyer and an assistant buyer. The cost of each of these can easily be charged directly to the department concerned. There are many expenses, however, that are incurred by several departments jointly or by the store as a whole. In dividing these expenses, which are called *indirect expenses,* the problem is one of finding a means of dividing the expenses among the various departments so that each will bear its equitable share. To illustrate, the expense of the accounting office is incurred for the store as a whole and must be distributed equitably among the departments of the store. This distribution of the indirect expenses to the various departments is spoken of as the "proration" of indirect expenses.

Proration of Indirect Expense.—Two factors of primary importance must be considered in choosing a basis for prorating any indirect expense: (1) the equitableness or fairness of the method in respect to the various departments affected; (2) the difficulty and cost of prorating the indirect expenses by the method under consideration As will be pointed out in the following discussion of various proration bases, the actual proration basis used in many instances is not the most equitable one; this unfairness may be due to lack of careful thought as to the correct basis or to the real or supposed difficulty and cost of using the most equitable basis.

The volume of sales of each department has been used by some stores as the chief basis of prorating indirect expenses, for this is the simplest basis. A careful consideration will in many cases show that a better basis can be found. For example, some stores distribute their indirect buying expenses on the basis of sales rather than according to the volume of cost purchases, which is the more equitable basis. Delivery expenses in some stores are charged on a volume-of-sales basis although this is manifestly unfair. To take an extreme case for purposes of illustration, the

actual delivery costs for a department handling jewelry and precious stones probably would be very low as compared with the sales figure, whereas in a furniture department the delivery costs would be much higher in relation to the sales; clearly, then, a proration of delivery costs on the basis of sales volume would not be equitable. The volume of sales is used properly to prorate most general expenses, for example, executive-office expense

All general or institutional advertising is ordinarily charged on a volume-of-sales basis. Some merchants maintain that all advertising should be upon this basis even when it is the direct cost of a certain department The justification for this, according to them, is that an advertisement brings people into the store who buy not only the things which have been advertised but things which they see in other departments as well Because the goods of some departments have a greater attraction appeal than others, these departments do a great deal of advertising that benefits the nonadvertising departments also A proration on the volume-of-sales basis would make all departments share in all the store's advertising expense more equitably, it is claimed. The indirect expenses of general selling, mail and telephone orders, and adjustments often are charged on a basis of volume of sales.

The volume of cost purchases, as has been mentioned, is the proper basis for distributing the indirect-buying expenses, for these expenses tend to vary with the amount of purchases. Prorating on the basis of sales might result in an unjust charge to those departments having a high markup.

The average stock at cost in each department would be the basis for prorating taxes, insurance, and interest on the investment in merchandise.

The value of the space occupied would be the basis for prorating to each selling department the rent, taxes, insurance, interest, and depreciation on the building. As will be explained later, different parts of the building have different occupancy values. For example, space just inside the main entrance will be far more valuable than that toward the back or that on the sixth floor.

The amount of space occupied determines the prorating of the costs of cleaning, general supervision, and warehouse space.

All floors of a warehouse usually are considered of the same value, as is every part of each floor

The number of transactions would be the basis for prorating the costs of auditing, of billing, and of credit transactions

The value of the fixtures and equipment would be the basis for prorating the taxes, insurance, depreciation, and interest on the investment in fixtures and equipment.

The number of packages delivered and returned would be the basis for prorating delivery expenses. Because different sizes and weights of packages are delivered, some classification of packages should be made Some stores divide them into two groups, small and large, charging less for the small packages Other stores determine what is an "average" package and an "average" charge and then plan several groups with appropriate charges above and below this average This is an attempt to have each type of package bear its proportionate share The delivery costs of the furniture department may be put in a class by themselves.

Prorating the Rental Expense.—The rental actually paid by a store must be prorated just as are other indirect expenses The distribution of this rental expense to the various departments or sections of the store will be discussed in some detail at this point as an example of the general problem of proration Stores use many different methods, all of which are largely a matter of judgment. Some merchants would simplify the matter by maintaining that all parts of the store are equally valuable if the store is properly laid out, inasmuch as for each department there is an ideal location within the store. In spite of this contention, there seem to be logical reasons for considering some parts of the store more valuable than others. Where a store occupies several floors, it is only natural that the main floor is the most valuable location It is the easiest of access and has the greatest customer traffic, for customers for other floors must pass through the main floor. Other floors will differ in value largely depending on their ease of access. If there are many and convenient elevators, the ease of access will be increased and the other floors will become more valuable

In dividing the rental cost among the different floors, it is largely a matter of judgment as to their respective values. One store allocated 45 per cent of the rent to the main floor, by

far the most valuable space in the building. The basement, which did not occupy quite the same number of square feet as the main floor, was charged 15 per cent. The second floor was rated at 25 per cent and the third at 15 per cent.

Next, the retailer has the problem of dividing among the departments on each floor the amount of rent charged to that floor. In this distribution, most of the nonselling departments are not charged rent. Certain departments that are revenue producing, such as manufacturing departments, can be charged rent; but, on the whole, the rental must be borne by the selling departments. The cost of the non-revenue-producing nonselling departments would later be prorated among the selling departments; hence, the plan of dividing the total rental among the selling departments accomplishes directly the same result.

If the amount of rent allocated to a floor and the number of square feet of selling space on that floor are known, the rent that each square foot should bear can be determined. Multiplying the rent per square foot by the number of square feet used by each selling department on that floor will give the rental value to be charged to the department.

A more accurate means, however, would be to determine the relative worth of different parts of the floor. The retailer should make a diagram of the floor layout to serve as a guide in this determination of the rental values of the different sections of the floor. Space near the entrance and along the main aisle will be the most valuable, for it has the greatest customer traffic. Space along the side aisles will be less valuable, and some parts of the floor, because of their difficulty of access or because of poor light, will be still less valuable. The square footage can be weighted according to its desirability.

As a simple example, the best locations might carry a weight of 5, the less desirable a weight of 2, and the least desirable be unweighted. Then the merchant can multiply the number of square feet in each "zone" by the weight and divide the rental charge to the floor by the total weighted square feet to get the rental charge per weighted square foot He can then multiply the charge per weighted square foot by the number of weighted square feet in each department to get the share of the rental to be charged to each individual department.

Lack of Uniformity of Expense Distribution.—There is much variation in practice among retail stores with regard to the distribution of expenses to departments.[1] Some store executives question the worth of any extensive proration of indirect expenses. Even if the desirability of distributing all expenses in a detailed manner to the various departments is established, there is still much room for difference of opinion as to the most equitable basis for prorating each of the indirect expenses. In attempting to determine sound bases the retailer must constantly ask himself whether or not the greater equitableness resulting from a more elaborate method of distributing expenses will more than offset the extra cost that it may involve.[2]

The Contribution Plan.—The so-called "contribution plan," which has been adopted by a number of retail stores in recent years, is, briefly, a method of charging to each department only those expenses which are directly incurred by the department and which would disappear if the department were discontinued.[3] These expenses are termed "escapable" expenses; for, from the point of view of the store as a whole, they would not be incurred if the department were eliminated. The total of the escapable expenses for a particular department subtracted from the gross margin gives the department's contribution to the general overhead of the store.

All other expenses, which are termed "inescapable" because they continue regardless of whether or not a specific department is operated, are not distributed to the various departments. The

[1] For a more detailed discussion of expense distribution, see John W. Wingate and Norris A. Brisco, *Elements of Retail Merchandising*, pp. 237–242, 445–463, Prentice-Hall, Inc., 1938.

[2] In *The Expense Distribution Manual* adopted by the Controllers' Congress of the National Retail Dry Goods Association, recommendations are made as to the distribution bases that should be used in most cases. These suggested bases are given for the various subfunctional-expense accounts. For a summary of these suggested distribution bases in chart form, see *The Expense Manual, op. cit.*, pp. 157–158. For suggestions as to bases for distributing expenses among departments in the small retail organization, see *Departmentize for Better Profit Control*, p. 10, booklet published by the Merchants Service Bureau of The National Cash Register Company, 1938.

[3] *The Expense Manual, op. cit.*, p. 144. The contribution-plan idea was formally presented to the members of the N.R.D.G.A. by Mr. C. B. Clark, Controller of the J. L. Hudson Company in Detroit, in a speech at the January, 1934, convention of the N.R.D.G.A.

total of the inescapable expenses subtracted from the total of the individual-department contributions gives the final net-profit figure for the store.

The contribution plan is thus a form of departmental accounting analysis that provides a contribution figure for each department rather than the net-profit figure, which is determined under the ordinary method of distributing all expenses to the various departments. The following example shows a comparison of the operating statements (in abbreviated form) of a department under the common plan of distributing all expenses and under the contribution plan.[1]

DEPARTMENT A OPERATING STATEMENTS

Expense-distribution Method			Percentage to Sales	Contribution Plan			Percentage to Sales
Net sales		$46,503	100.0	Net sales		$46,503	100.0
Cost of sales		27,661	59.5	Cost of sales		27,661	59.5
Gross merchandise margin		$18,842	40.5	Gross merchandise margin		$18,842	40.5
Expense.				Escapable expense			
Administration	$2,291			Administration	$ 544		
Occupancy	8,181			Occupancy	114		
Publicity	3,084			Publicity	2,772		
Buying	1,775			Buying	797		
Selling	6,544			Selling	5,754		
Total expense		21,875	47.0	Total escapable expense		9,981	21.5
Net loss		($3,033)	(6.5)	Department contribution		$ 8,861	19.0
				Inescapable expense			
				Rent not charged		$ 7,573	
				Other not charged		4,321	
						$11,894	

In the above example, department A shows a net loss of $3,033 (or 6.5 per cent of sales) after it is charged its share of all expenses However, if the department is charged only with those expenses which are considered escapable, that is, those which originate with the operation of the department and would not exist if the department were dropped, it shows a contribution of $8,861 that can be applied to the payment of the total of the inescapable expenses for the store

Probably the greatest problem in the contribution plan is the determination of which expenses are escapable and which inescapable. Because of differences in organization and size

[1] This is adapted in a simplified form from an example given in *The Expense Manual, op. cit.*, p 146.

of stores, an expense considered as escapable in one store might logically be considered inescapable in another.[1] As illustrated in the comparison of the operating statements on page 322, the great majority of the administrative expenses and almost all the occupancy expenses are inescapable in character. On the other hand, most of the publicity and selling expenses are escapable. The functional expense of buying is more evenly divided between the two types of expense, ordinarily. Certain important expenses such as those for actual buying, receiving, and marking would be escapable, whereas such costs as the expenses of the general merchandise office and resident-buying offices would ordinarily be inescapable.

Expense Budget.—An expense budget is a carefully prepared estimate of the planned expenses of the store that is used as a check on the actual expenses. A merchandise plan, or budget, is a careful estimate of what the store plans to sell month by month during the coming season and its planned stocks, purchases, initial markup, and markdowns. These figures in the merchandise budget are planned with the idea of obtaining the gross margin that the store hopes to make. Because all expenses must be deducted from this gross margin before any net profit is obtained, it is only natural that the merchant finds it imperative to estimate carefully what expenses will be caused by following out the merchandising plan, thus the expense budget and merchandise plan work together in guiding the store to future profits.[2]

Preparation of the Expense Budget.—The expense budget ordinarily is made up for a period of six months. Both past records and future plans must be taken into consideration in planning the budgeted-expense figures. The past records of the expenses and their proportion to sales, together with the information given in the merchandise plan for the future season, supply these two elements needed in preparing an expense budget.

If an expense budget is to be prepared with any degree of accuracy, it is essential that the store have a worth-while accounting system. This system is relied upon to give accurate figures

[1] For an example, see *ibid.*, pp. 144–145.

[2] As pointed out in Chap. XII dealing with the merchandise plan, the expense budget, or plan, often is worked out simply as one part of the complete merchandise plan.

concerning past expenses and their relation to sales. As the merchant or buyer studies these past records of expenses, he can compare them for several years back and note any trends in the items. It may be that certain expenses are steadily increasing but not in large enough amounts at any one time to cause particular attention; however, as viewed over a period of time, the rising cost of such expense items becomes apparent

In a small store the merchant with the help of his bookkeeper works out his expense budget. In a large store the work of preparing the budget is turned over to a budget committee, possibly the general manager, the merchandise manager, and the controller. The membership of such a committee differs in different stores.

Each department head is supplied by the controller with his past expense data and the merchandising plan for the coming season, all on a monthly basis. With this before him, each department head prepares his expense estimate and gives it to his superior. Having originated this budget himself, he feels bound to keep within it after the final budget plan has been adopted Because he knows his estimate will be studied by his superior and later by the budget committee, he will naturally try to make it as convincing as possible.

After these various departmental expense budgets have been compiled into groups according to the functional divisions, the budget committee will study them. It may be necessary to adjust certain figures to make the budget as a whole one that the store can reasonably expect to follow. Even with all this study the expense budget is only an estimate and therefore will not always harmonize with actual results.

Use of Comparative Figures.—As pointed out above, the budgeted expense figures are determined by the retailer largely on the basis of past expense experience with modifications to fit the future merchandising and operating plans. But past expenses are a satisfactory basis for budgeting only if it is assumed that the past expense showing was satisfactory. Thus, it is highly desirable that the retailer have standards outside his own business by which to judge both his total operating cost and the relative proportions of it going to specific expense items.

In a number of different retail trades, expense data are collected and assembled in well-classified form by various agencies,

such as university bureaus of business research, trade associations, trade-paper publishing organizations, and governmental agencies.[1] In these classifications the attempt is made to group together similar types of stores operating under approximately similar conditions; thus the stores in a particular kind of business may be grouped according to sales volume, size of city in which they are located, amount of service extended, or other basic factors that affect the operating expenses of stores In some cases the expense figures of the stores are shown classified according to a combination of groupings. For example, the stores may first be divided into sales-volume groups, and then each of these groups may be further subdivided by size of city.

The widespread adoption among department stores and departmentized specialty stores of the standardized expense classification of the Controllers' Congress has greatly facilitated the collection and use of comparison figures in those retail trades. The most important sources of comparative data on these two types of retailing are the reports of the Harvard Bureau of Business Research and the Controllers' Congress of the N R.D.G.A. The Harvard Bureau of Business Research report entitled "Operating Results of Department and Specialty Stores" is issued annually. The operating results for both types of store are shown by sales-volume groups,[2] and both "common" and "goal" figures are given.[3] The expense classification used in these reports in general conforms to the standardized-expense-classification plan of the Controllers' Congress.[4]

[1] For a collection of such figures for different trades, see *Expenses in Retail Businesses*, booklet published by the Merchants Service Bureau of The National Cash Register Company.

[2] In the report covering 1939 operations a table was given showing, for a limited number of items, operating results for department stores classified according to net sales volume and size of city.

[3] "Common figure" means the "most representative figure in any series or array" and "goal figures depict the typical results for a number of the most profitable firms in the respective volume groups" For further explanation, see *Operating Results of Department and Specialty Stores*, Appendix, Harvard Bureau of Business Research.

[4] There are important differences, however, in the treatment of (1) rentals and related items, (2) interest, and (3) professional services. These differences are explained in "Operating Results of Department and Specialty Stores," Appendix, Harvard Bureau of Business Research.

The Controllers' Congress issues annual reports entitled "Departmental Merchandising and Operating Results of Department Stores and Specialty Stores" in which figures are given departmentally as well as by size of store Both *typical figures* (representative performance) and *goal figures* (planning guides) are given. The expense figures are shown by functional and in some cases by subfunctional groups.

In many lines of retailing, expense data, as well as other operating information, are assembled by trade associations and made available to member stores.[1] A good example of such trade-association activity is the annual hardware-store survey made by the National Retail Hardware Association, the results of which are published in the official magazine of the association In the published report the operating results are broken down by size of store (net sales volume) and by size of town in which the stores are located. Thus a dealer can compare his operating results with those shown for a group of stores of approximately the same size and in the same general town-size classification In the various groups, figures are shown for the "group average" and for the "profit makers."[2]

Several other retail trade associations provide aid to their member stores in connection with expense planning and control; this aid may or may not include the collection of comparative figures on operating results.[3] In many retailing trades the publishers of trade papers may furnish information of considerable value to the retailer in the budgeting of his operating expenses.[4]

Among other important sources of retail operating figures, special mention should be made of governmental bureaus and agencies. For example, much information on retail operating

[1] In some cases the results of such operating-cost studies are published in trade papers or in other forms that make them available to any retailer in the trade.

[2] For the detailed hardware-store survey covering 1939, see "1939 Hardware Sales Rise; Margin Best in 5 Years," *Hardware Retailer*, June, 1940, p. 65.

[3] For an example of a study of operating results in the retail furniture field, see John R. Trost, "Are We on the Road Back?" *National Furniture Review*, April, 1940, p. 26

[4] See *Operating Expenses of 125 Food Stores*, booklet published by The Progressive Grocer, 1941.

conditions and costs is available by kinds of business, by types of operation, and by areas in the reports on retail trade of the Censuses of Business.

In studying comparative expense figures as a basis for evaluating his own expense showing, the merchant must remember that they are "common" or "average" figures for the group studied and that his store probably is not operating under exactly "common" or "average" conditions In other words, the figures worked out for his particular retail-trade group are very useful for comparison purposes, but they should seldom, if ever, be used as exact figures to which he must make all his expenses conform.

For example, in one particular town, rents temporarily may be higher than normal because of a shortage of suitable buildings or for some other reason; therefore, it would be natural to expect the rental expense of a store in that town to run above the average or common figure. In another town, some item of expense might be unusually low; as a result, the merchant might reasonably have a relatively low percentage of expense for that item without any real effort on his part.

There is a real value, however, to the merchant in comparing the expense figures of his store with those of other like stores or to the buyer of a department in making such a comparison with like departments in other stores. Where his figures vary from the average, the reasons should be sought and studied. If his figure for a particular expense item is high, is there something that can be remedied? Are the conditions under which the store operates really average conditions?

Having studied his past expense figures in this light, the merchant can better prepare his estimate for the future. He has decided that salaries and wages are too high and so studies the reasons and means for bringing this item into line. Advertising is not so high as the average Is this due to a superior location, or is he not doing sufficient advertising? His answer to this question will have a bearing on his advertising estimate in the expense budget.

If his profit is to be satisfactory, he must either keep his total expense figure within a certain percentage of sales or raise his gross margin. This must be considered in preparing his merchandise budget and expense budget

Use of the Budget.—Unless the store actually carries out its expense program as set up in the budget, the budget is of little real value. This following up of the budget should include frequent checking of actual expenditures against the budgeted figures, attempts to keep in line with the planned figures, definite placing of authority for the authorization of all expenses, and the means for revising the original planned figures if the necessity for changes arise. When a department's expense figures begin to vary from its budget figures, the buyer should be called on for an explanation. If there is a proper reason, the budget figures should be revised in the light of present conditions. If there is not a proper reason, adjustments should be made as speedily as possible to bring actual expenses in line with the expense budget

It should never be forgotten, however, that the budget is to be an aid to the business rather than an ironclad model to which the business must be adjusted. Because of this constant need for readjustment the expense budget ordinarily is divided into monthly periods just as is a merchandise budget. Some stores even divide it into weekly periods, on the theory that such a division gives them a better and more current control over the expense items.

If the expense budget is carefully drawn up and closely followed out in the actual store operations, with reasonable allowance for any necessary revisions in the planned figures, the budgetary procedure has at least three important advantages as compared with the procedure of simply meeting day-to-day expenses without any preplanning: (1) It substitutes for post-mortem analysis of expense the planning of expenses in accord with expected future merchandising activities. Instead of simply analyzing expenses after they have been incurred, the store attempts to plan the expenses and then keep them in line with this budget, or plan; this is in accordance with the scientific retailing procedure of planning all the elements of the store's operations with the end in view of obtaining a satisfactory net profit for the store. (2) The budgetary procedure helps coordinate the activities of the various functions and divisions of the store; for example, the amount to be spent for publicity purposes is kept in a reasonable proportion to the sales volume. (3) The expense budget helps in placing definite responsibility for

the amount of the various expenses incurred; if the buyers and others affected are given their proper part in the preparing of the budget figures, they are more willing to accept and carry out their full responsibility in expense control

Pay Roll as an Expense Item.—Wages and salaries constitute the largest single expense item in the retailer's expense budget. In practically all lines of retailing the pay roll cost consumes one-half or more of the gross margin of the retailer.[1] For example, a survey of the 1939 operating experiences of more than 13,000 independent retailers by Dun & Bradstreet, Inc., indicated that out of the 50 retail trades into which the stores were grouped only 4 showed a typical wage and salary expense less than 50 per cent of the gross margin.[2]

The relation of the pay roll expense to the total operating costs of a store varies among different retail trades and among different types of operation within a given trade[3] The percentage of the net sales that is consumed by the pay roll cost also is affected by the size (sales volume) of the store and by the size of the city in which it is operating.[4]

Because the pay roll cost constitutes the largest expense item in his expense budget, it should be given careful consideration by a retailer. He should compare his pay roll expense with the most nearly comparable figures available. If this comparison indicates that his wages and salary costs are too high, he should review the personnel element in his selling and operating activities.[5] For example, it may be helpful to review the average sales per salesperson as compared with similar figures in other comparable stores (if such figures are available) and to compare

[1] In 1935, out of every dollar spent by the consumer for retail goods, 15 cents, or more than half the retailers' gross profit (margin) was needed to cover wages and salaries, including the proprietors' imputed compensation. *Does Distribution Cost Too Much?*, p 146, Twentieth Century Fund, 1939

[2] "How Wage and Salary Expense Varies in 50 Retail Trades," *Dun's Review*, April, 1941, p. 18 Neither department stores nor chain stores were covered in the survey upon the results of which this article is based.

[3] See *Does Distribution Cost Too Much?*, *op cit*, pp 146–151. For examples of the variations in pay-roll cost by kinds of retail trade, see also "How Wage and Salary Expense Varies in 50 Retail Trades," *ibid*.

[4] See "How Wage and Salary Expense Varies in 50 Retail Trades," *op. cit.*

[5] Personnel activities in the retail store are discussed in detail in Chap. XXI.

the sales of each salesperson with his salary. Because this one item of pay roll makes up one-half or more of the retailer's total operating costs, the proper control of this item is a big step in the direction of expense control for his business

Rent Expense.—The payment for rent or for comparable expenses on property owned by the retailer ordinarily is the second largest expense in the store, being exceeded only by the pay roll item. In addition, it is the retailer's chief long-term commitment. Thus, care must be exercised by a retailer in negotiating a lease, if he is a tenant, or in purchasing and managing his own building.

If the retailer is a tenant, he must determine what he can afford to pay in terms of net sales for a particular location A partial answer to this may be obtained by a study of comparative figures of other stores in the trade Then, by estimating the likely sales volume in a particular location and applying the estimated rental-cost percentage, he can determine, at least roughly, the reasonable dollar rental for a location. It is important to the landlord, also, that the rent be closely in line with what the store can afford to pay, for it is to his advantage to have a profitable and solvent tenant.[1]

If, instead of leasing a building, a retailer operates in owned property, his "rental" cost is not one primarily of a rent payment to a landlord but is rather a combination of real estate costs, consisting largely of taxes, insurance, depreciation, and interest on the real estate. Thus, his budgeting of rental expense tends to become a more involved procedure [2]

The table on page 331 shows the cost of rent in terms of sales for a number of retail trades in 1935 These figures represent the rent paid (in terms of net sales) by tenants of leased property, as reported to the 1935 Census of Business. The average rental cost in leased premises in 1935 was 3.9 per cent of sales.

In the gathering of comparative operating statistics by trade associations and other agencies the "rental-expense" classifica-

[1] See MITCHELL, WALTER L., JR, "Occupancy Expense and the Extent of Tenancy in Retailing," *Dun's Review*, February, 1941, p 11.

[2] Also, the ownership of the building may bring many additional problems quite different from those of his merchandising activities, for retail merchandising and real-estate management are two distinct lines of business. *Ibid*, p 11.

RENT EXPENSE IN RETAIL TRADE, 1935[a]
(Rent paid by tenants of leased premises)

Kind of Business	Per Cent to Sales
All stores[b]	3.9
Candy and confectionery	8.7
Shoe stores	7.5
Restaurants, cafeterias	6.8
Drinking places	6.8
Jewelry stores	6.6
Variety, 5-and-10, etc	6.6
Women's specialty stores	6.2
Men's clothing and furnishings	6.0
Drugstores	5.3
Filling stations	5.0
Dry goods and general merchandise	4.6
Family clothing stores	4.5
Furniture stores	4.5
Hardware stores[c]	4.2
Automobile accessories, tire, and battery	3.9
Meat markets	3.6
Household appliance and radio	3.4
Department stores	3.0
Groceries (without meats)	2.8
Beer and liquor stores (packaged)	2.5
Combination (groceries and meats)	2.3
Fuel and ice dealers	1.6
Lumber, building material	1.6
General stores	1.6
Motor-vehicle dealers (new)	1.2

[a] Adapted from Table B, *Retail Operating Expense*, p 16, a special report of the Retail Division of the 1935 Census of Business

[b] Includes all kinds of business, not just the selected ones shown here

[c] Does not include those stores classified as "hardware and farm-implement dealers" That classification showed a rental cost of 1.6 per cent of sales

tion is ordinarily designed to include not just rent paid to a landlord by a tenant but also the real-estate expenses of the retailer who owns his property. Thus the item shown as rent expense usually is made up of rent actually paid to a landlord by some stores in the trade and real-estate costs such as taxes, insurance, depreciation, and interest on the real estate in the case of those retailers owning their property.[1] The purpose of this handling of the rental-expense classification is to get as great a degree of comparability as possible between the figures

[1] The "rentals" expense in the standardized expense classification of the Controllers' Congress is an important exception. See p. 310.

for retailers owning their building and the figures for those operating as tenants.[1]

In recent years, there has been a marked development of the practice of leasing store property with the rental expressed as a percentage of sales rather than as a fixed amount in dollars. This is largely a result of the retail rental situation caused by the severe business depression of the early 1930's.

The almost universal practice prior to the 1930's was for merchants in leasing property for their retailing operations to lease the property for a number of years at a fixed rental per year With the store building leased at a fixed rental for a number of years, the rent expense becomes a fixed cost that cannot be budgeted in the light of business conditions So long as business conditions are good and a store's sales volume is increasing, the fixed rental charge is a benefit to the store in that the fixed amount becomes a smaller and smaller percentage of the sales of the store; however, during the business depression the fixed rental charge became more and more of a burden as the volume of sales of the stores declined. The seriousness of the situation can be seen from the fact that several of the chain-store organizations went so far as to resort to receivership to bring rents down.[2]

From the standpoint of the store a percentage-of-sales leasing arrangement means that the rental charge is kept in line with the sales, which constitute the income of the store. By this arrangement the lessor of the property benefits in proportion to the gross income of the property as measured by the sales volume of the store. Many landlords object to the idea of percentage leases to mercantile enterprises, claiming that the value of the location should not be depreciated by the mercantile faults of the tenant In other words, they feel that a low sales volume which is due primarily to poor merchandising on the part

[1] In the Dun & Bradstreet *Survey of Retail Operating Costs* covering the year 1939, the rental cost item was termed *occupancy expense* and was defined to include "rent, heat, light, and building service—as reported by tenants; property taxes, property insurance, depreciation, repairs, mortgage interest, heat, light, and building service—as reported by owners." Thus, occupancy expense was much more inclusive than rent expense in the sense of the amount paid to a landlord. See MITCHELL, *op cit.*, p 11.

[2] Long-term leases at a fixed rental per year were common among chain-store organizations.

of the store rather than to the poor location of the property unjustly lowers their income from the property. This objection on the part of the landlord probably accounts for the inclusion of a minimum guaranteed rental provision in most of the percentage rental contracts.

There is considerable chance for differences of opinion and serious disputes between the landlord and tenant in connection with a percentage-leasing agreement. This means that if a percentage lease is to be successful there must be *fair play* on the part of both the landlord and the tenant.

One of the important questions to be answered when a percentage lease is to be used is what percentage of sales should be chosen as the rental percentage. It is possible ordinarily to get suggestions as to percentage rates from such sources as executives of city real-estate boards and other retailers Obviously, however, the question of the exact rental percentage is one that must be answered by the landlord and tenant in each individual case The location of the store, the probable sales volume of the business, the type or character of the merchandising operation, as well as other factors, should be carefully considered in the determination of the rental percentage.

Insurance.—This expense item is of such a nature that it merits special attention. Insurance has this peculiarity: the real importance and necessity of it is seldom fully appreciated until it is too late. After the store has been damaged by fire, the plate-glass windows broken by an unknown passer-by, or a customer seriously hurt in an elevator or on an escalator in the store, then the merchant wishes that he had had adequate insurance coverage. The progressive merchant realizes that before any insurable losses occur he must study his insurance needs to see wherein he can protect himself against future losses.

It is important that a store select a thoroughly competent insurance broker to represent the store in planning its insurance, picking out the companies with which to insure, and otherwise acting as insurance counsel for the store. In the large store the handling of the insurance problem is generally the responsibility of the controller. In the small store, also, the responsibility for the store's insurance program should be one person's. In this way, there will be no failure to insure because of a shifting of the responsibility. The designated person should see that

all insurance policies and necessary proof, such as the most recent inventory figures, are in some safe place, preferably one away from the store.

The insurance companies chosen should be thoroughly reliable ones. The merchant has chosen them to help him in the time of his need. They are worse than useless if they cannot in this crisis live up to their agreement expressed in the insurance policy. A company's net assets, its past record of claim payments, and its general reputation will give the merchant a basis for judging its reliability.

The insurance policy itself should be carefully read, for it is the contract between the store and the insurance company. It is especially important that the merchant clearly understand each provision in the policy, because it is the actual meaning of a provision that governs the two contracting parties rather than what the merchant thinks the particular provision means.

It should be seen that all property to be covered by the policy and the owners of the property are correctly described and named and that the same description and names are given in the different parts of the policy, this is to prevent a chance of disagreement later as to which statement is the binding one.

Forms of Insurance.—If insurance is to fulfill adequately its function of protection, the store will find a need for a variety of types of insurance coverage. Although no attempt will be made here to cover all the various types of insurance that a store might carry, some of the more important forms of coverage will be discussed briefly [1]

Fire insurance is one of the most important forms of coverage. Because of the large amount of money tied up in buildings, stock, and fixtures, a retailer cannot afford to take the chance of an unprotected loss, for a fire could quickly wipe out his entire investment A merchant should be thoroughly conversant with the conditions and provisions stated in the fire-insurance policy both in order to make sure that he is doing nothing to invalidate the policy and that he has adequately covered his possible loss.[2]

[1] For a more detailed discussion, see O. Preston Robinson and Norris B. Brisco, *Retail Store Organization and Management*, pp. 502–510, Prentice-Hall, Inc., 1938

[2] Because insurance may not cover the full amount of the loss to the store, it is to the store's advantage to do all in its power to prevent a loss from

If the policy contains a coinsurance clause, as is ordinarily the case, it is important that the property be insured up to the required percentage of the total value, for otherwise the insurance company will not be required to pay the full amount of the loss apparently covered by the policy.[1]

There are various forms of liability insurance that may be necessary if the store is to have adequate coverage. If there are delivery trucks or other automobiles used in the business, these should be covered by both personal and property liability to protect the store from damage claims due to any injury or death caused by the store's automobiles or damage to others' property caused by these cars.[2] Where there are elevators and escalators, a store should protect itself by insurance against loss due to accidents suffered by customers from these sources. General-liability insurance will protect the store against claims resulting from injuries to persons while on store property that involve negligence on the part of the store.[3]

Employers' liability and workmen's compensation laws are now in effect in 47 states; thus, workmen's compensation insurance should be considered a basic form of coverage for practically all stores In some states, workmen's compensation insurance is compulsory

Use and occupancy insurance covers the losses over a period of time a building is unfit for use because of a fire. It protects the store against the loss of earnings exactly as fire insurance protects against property loss. It also covers the losses arising from certain fixed charges and expenses that continue even though the store is not operating.

The four above types of insurance coverage, including (1) fire (on buildings, fixtures, stock), (2) liability (public, elevator, and automobile), (3) workmen's compensation, and (4) use and occupancy, may be considered as basic for most stores; they

---

occurring. The prevention of losses also helps lower the rate charged by the insurance companies.

[1] For examples of the operation of the coinsurance clause, see Robinson and Brisco, *op. cit*, pp. 504–505.

[2] Fire, theft, and collision insurance may also be carried on all the store's delivery cars and other automobiles or trucks.

[3] See "Handling of Public Liability Claims Demands Uniform Policy," *Women's Wear Daily*, Feb. 3, 1941, p. 27

must be carried if a store is to avoid the danger of heavy financial losses. In addition to these more basic coverages, there are many other forms that may be highly desirable and even essential under certain circumstances and for some stores. Among these are such forms of coverage as transit, boiler explosion, sprinkler leakage, plate glass, robbery and burglary, fidelity bonds, and weather insurance.

Transit insurance is to protect the store against loss or damage of goods in transit. Settlement of claims is much quicker than if the store has to file a claim at the post office, with the express company, or with the railroad company.

Steam-boiler insurance covers losses due to an explosion of the steam boilers. Sprinkler-leakage insurance is to protect against loss from the damage caused by the accidental operation of the fire-sprinkler system of the store Plate-glass insurance is to provide for the replacement of broken plate glass in the store.

Robbery insurance can be secured to protect the store against losses by robbery either of store employees within the store and its warehouses or of the store's messengers when away from the store with the store's property. Burglary insurance protects the store against losses resulting from the forcible or illegal entry into the store building to steal. Many stores bond their own employees to protect the store against any dishonesty on the part of the employees.

Weather insurance is now used by a number of stores when they are having special sales events; this is to protect the store from loss of sales because of inclement weather. If there is a certain amount of precipitation or snowfall between specified trading hours, the insurance must be paid to the store. Many or all of the types of insurance that have been described as well as other forms of coverage may make up the insurance item in an expense budget.

CHAPTER XVII

SALES PROMOTION

What Is Sales Promotion?—The term *sales promotion* is used in different senses. As used by some, it refers to anything that promotes or tends to increase the store's sales volume; this includes a wide range of activities. Everything from the proper pricing of merchandise to good credit practice would fall within the range of this definition, for these factors have a bearing on whether or not people will purchase and in what quantities.

It is best for the merchant to think of sales promotion in this broad sense because it gives him a bird's-eye view of all the things that bear upon his sales volume Otherwise, he might forget some of these relationships and thus not have them in mind in his planning It is just as important for him to know that sales are being retarded by impolite salespeople, poor delivery service, or grudgingly made adjustments as to know that poor buying is resulting in low sales.

However, sales promotion is used in a narrower sense to mean the planning of special sales events and special showings of merchandise. The need has been felt for some person in the store around whom sales planning might be organized. In the small store, all the sales-promotional activities in the broadest sense of the term are conducted by the merchant himself, but as the store grows in size, he must delegate more and more of these activities to others in the store. He turns the advertising over to one employee, the credit activities to another, and so on. One of these activities is the planning and supervising of special sales events. This last type of activity is referred to as "sales promotion" whether or not it is placed under a separate manager in the store's organization.

Some merchants may question the need of a separate person or department for this activity, saying that it would be a duplication of effort because the store's buyers and advertising men are capable of handling this sales-promotional work. In discussing

the planning of a sale, it will be seen how the sale involves almost every part of a store. Getting all these different parts of the store to work in unison toward the success of the sale is facilitated by having one person responsible for coordinating the efforts of the rest. It is for this reason that the larger stores especially have what is known as the sales-promotion manager who is in charge of the sales-promotion work.

Importance of Sales Promotion.—The income of the store is derived from the sale of the merchandise offered in the store; because of this, any activities directed toward maintaining or increasing the sales volume are of primary importance. As pointed out in the discussion of the merchandise plan, the first element to be considered is sales, for the planned sales volume is of fundamental importance in the planning of the other elements in the merchandise budget. The expense budget, likewise, must be planned in line with the planned sales volume. An increase or decrease in the sales volume either directly or indirectly affects practically every part of the store organization Constant pressure is being brought to bear to increase the store's volume of sales and the store's profits Whatever will help the store to increase its sales, keep its customers' good will, and make a profit is within the province of sales promotion.

Special Sales.—One of the important duties of a sales promotion staff is the supervision of special sales. Retail stores, especially department stores, use a great many "sales" in their efforts to increase sales volume The desirability of having special sales is questioned by some merchants who say that certain stores have "saled" into failure. By this they mean that so much of the sales volume of these stores is the result of goods offered at reduced prices that the total gross margin obtained is not sufficient to cover expenses; therefore, the store really is operating at a loss, which eventually leads to failure.

Special sales may be divided into two general types (1) clearance sales, which are primarily for the purpose of disposing of old and slow-selling merchandise; (2) stimulative sales, which are intended to stimulate sales during dull periods. At first thought the first type of sale might be considered as being due to a store's merchandising mistakes, for otherwise it would not have old merchandise on its hands that has to be moved. This is true to a certain extent; however, as was pointed out in the

discussion of slow-moving merchandise, there are causes for slow-selling merchandise that are entirely beyond the store's control and thus cannot be considered as mistakes of the store Clearance sales include all sales held to clear out old merchandise, regardless of whether the old stock is due to store mistakes or to outside factors such as sudden style changes.

The second kind of sale is that type held primarily to stimulate buying during a dull season. The August fur sale is a notable example of this type. Furs are a highly seasonal article, and as a result the fur department can expect business over only a short period of the year. All-the-year-round expenses of the department have to be met by the sales volume of this short period. If the selling period could be lengthened, this overhead expense could be borne more easily.

Some enterprising buyer conceived the plan of offering a special price inducement to get people to buy furs before the opening of the regular season. When he approached the manufacturer, he found that the fur manufacturer was willing to give the store special price concessions because this early selling helped lengthen the manufacturer's season as well as the store's By buying at a lower figure and selling on a slightly lower margin the store was enabled to offer furs at very attractive prices

Ordinarily, people would have no interest in furs in August. The lower price, however, is an important appeal and is sufficient to cause people to anticipate their needs. Such preseason sales are fairly common with merchandise that has a seasonal appeal. The danger lies in the possibility that the sales will interfere with the later sale of merchandise at the regular markup When a store feels that such would be the result, it should curtail the use of preseason sales.

An entirely different application of the preseason sale is to use it for sampling merchandise for the coming season. By this means the buyer is given a guide as to what should be bought in quantity for the main part of the season.

Some forms of postseason sales might be classed as stimulative sales rather than clearance sales As the season passes its height, the manufacturer may have an oversupply which the store can buy at attractive prices. Because some people are more interested in price than in getting up-to-the minute merchandise,

they will be interested in such a postseason sale. As a rule, these sales will give the store a lower margin of profit than the preseason sales.

During a period of low sales a store may plan a special sale to stimulate business. Some of the merchandise may be specially purchased for this sale, but it is more likely that most of the offerings will be from regular stock. The sale is not so much an attempt to clear out merchandise as it is to stimulate selling throughout the whole store.

The marked difference of opinion among merchants as to the desirability of special sales is shown by the following arguments that are presented for and against special sales:[1]

Advantages of special sales

1. Offer an effective method of moving late-seasonal, damaged, and broken-lot merchandise
2. Increase sales volume during slack seasons
3. Attract to the store potential customers who may become regular customers.
4. Afford an opportunity to offer to customers unusual values due to buying advantages and market connections
5. Focus attention of the public upon the store.
6. Act as a stimulant to buyers and salespeople
7. Afford an opportunity to sell to customers attracted to a special sale in one section or department regular-priced merchandise in other departments.
8. Provide an effective method of introducing style and seasonal merchandise.

Disadvantages of special sales

1. Effect on store service and buying habits
   - *a.* Educate people to defer purchasing.
   - *b.* Lower the standard of store service because of additional work such as rearrangement of stock, filling in stock, pricing, etc., which is necessary before and after a sale.
   - *c.* Lower the grade of sales service because of the necessity of employing extra salespeople.
   - *d.* Destroy the confidence of the customer in regular prices
   - *e.* Create ill will and dissatisfaction of regular customers who just before the sale paid the regular price or who were inconvenienced by the shopping crowd.
   - *f.* Cause too much emphasis to be placed upon price.
   - *g.* Promote shopping on the part of customers.

[1] ALSPAUGH, RALPH B., *Consumers' Reactions to Special Sales in Columbus Department Stores*, pp. 88–89, Bureau of Business Research, The Ohio State University.

2. Effect on merchandising and operating problems
   a. Increase volume but decrease profit.
   b. Decrease volume immediately before and after sales
   c. Cause ill-balanced stocks—an excessive amount of broken assortment and odd-and-end merchandise.
   d. Hinder the sale of staple, regular-priced merchandise
   e. May prompt the buying staff to spend too much time scouring the market for sales merchandise instead of searching for goods to be sold at regular markup
   f. Hamper the efficiency of the regular sales force because of overtime work, difficulty of handling shopping crowds, and supervision of extra salespeople
   g. Prompt exaggeration, irrespective of honest intentions, of claims as to quality, quantities, buying advantages, and price comparisons.
   h. Attract a different class of customers than those to whom the store is regularly appealing.
   i. Fail, in most cases, to realize any advantage because of the attempt on the part of competitors to meet special prices.

Probably a majority of all merchants would agree that special sales, when properly carried out, have a place in the selling program of a store. Most of the more serious disadvantages of special sales, and consequently the real objections on the part of merchants, arise from the misuse of special sales, especially from too many sales or improper merchandising methods in the individual special selling events.

When a store has a great many special sales, there is the tendency to overstate the announcement of these sales and so cause people to be disappointed with what they find in the store as compared with what the advertisements have said. A sale is supposed to be unusual. When a store has a large number of sales, it is hard to make each one appear unusually attractive and still stay within the bounds of absolute truth. As a result of being disappointed in some sales that a store has conducted, the public becomes skeptical of all its offerings. This means that future sales have less and less pulling power. There may be a fool born every minute, but the public as a whole cannot be fooled successfully all the time.

Another danger in the use of special sales is that they will interfere with the sale of regular merchandise at regular prices. The public may develop the habit of postponing purchases until "sale" time so that it will benefit by lower prices; furniture

purchases often are mentioned as an example of this. Some merchants feel that furniture sales have become such an institution that a considerable part of the public postpones its purchases until the "semiannual furniture sale."[1] To the extent that emphasis on special sales actually results in customers' deferring purchases until "sale" times, this emphasis is detrimental to the store's profits. It is not an easy thing to get the public out of this habit of thinking in terms of special sales and into the habit of thinking of quality, style, and design rather than price

Largely because of the frequent misuse in various ways of special sales, with the resultant diminished appeal of the sales to customers, the trend was away from special sales in the period leading up to the depression of the 1930's.[2] Many of the better class stores were tending to place less emphasis upon them. During the period of the depression, however, there was a marked movement in the other direction; stores tended to resort more frequently to special sales as a promotional device. This increase in the number of special sales caused by the declining price levels and the necessary readjustments in many stores during the depression years probably in many instances lowered the consumer's opinion of special sales

The misuse of special sales has in some states and cities resulted in state or municipal regulation.[3] Sixteen states have laws regulating going-out-of-business sales. For example, one state started regulation of closing-out sales with the passage of a law providing that closing-out sales cannot be conducted at retail without a license.

In view of the comparatively small amount of faith in special sales on the part of many consumers, it is especially important that a store properly merchandise its special sales to the prospec-

[1] In the study by Alspaugh, *ibid.*, it was shown that 12 per cent of the women interviewed deferred the purchase of furniture until the announcement of a sale. This percentage was much smaller than that for any of the other four selected items: (1) women's afternoon dresses, (2) men's underwear, shirts, and ties; (3) hosiery; (4) cosmetics. For more detailed information, see pp. 61–71 of the study.

[2] Other factors also may have affected this tendency to get away from special sales, for example, the relatively smaller emphasis on price during those years probably was one factor

[3] The scope of such regulation in a number of Ohio cities is described in

tive customers of the store. From the standpoint of most customers, a special sale is just as dependable as the store conducting the sale; this means that a store of good standing can make effective use of special sales if they are properly presented to the customers and properly conducted

Special Sales and Store's General Sales Policy—In considering the advisability of a special sale, one of the first questions to be answered is, "Does this sale harmonize with the store's general selling policy?" If the store is emphasizing style and exclusiveness, it cannot afford to have many special sales, because frequent sales are not in accord with an appeal of quality and exclusiveness [1] On the other hand, if the policy of the store is to increase volume steadily and to place considerable emphasis on price, special sales will be much more suitable as a part of the store's sales-promotional activities

The store must also consider the type of people who will be attracted by the planned sale. If they are a different type from the regular customers of the store, will that fact lower the standing of the store in the eyes of its regular customers? If the store prides itself on the courtesy and efficiency of its sales force, it must make sure that, if the force has to be enlarged for the special sale, it can get the right type of employee so that the store's reputation for courteous and efficient salesmanship will not be lessened.

Store-wide vs. Departmental or Sectional Sales.—Special sales may be classified according to their extent as (1) store-wide sales, (2) departmental sales, and (3) sectional sales. A store-wide sale is one that includes the offerings of departments throughout the entire store. A sectional sale differs from a departmental sale in that it is a sale of offerings from a group of departments; for example, a sale in the departments on one floor would be a sectional sale.

The store-wide sale has the advantage of bigness, a feature that always seems to have an appeal, and draws a large number of people into the store for that reason alone. The tendency,

---

"'Going Out of Business' Sales Face Tougher Going," *Women's Wear Daily*, Feb. 11, 1941, p. 3.

[1] An exclusive New York shoe store has a mezzanine floor devoted to the sale of broken sizes and slow-moving stock, thus trying to do away with the need for semiannual sales.

however, is to curtail the use of the store-wide special sale because of the many disadvantages arising out of its use. Because of its very size, it is harder to plan and conduct in such a way that all things will run smoothly than a departmental or sectional sale would be The great amount of detail involved means the risk of some things' being left undone that should have been cared for and of other things' being done poorly. This means difficulty for the store's personnel and the loss of good will on the part of the customers of the store. A Cleveland adjuster has made the statement that store-wide sales produce an increase of 300 per cent in complaints.

Although the advertising of such a sale attracts attention because of its volume, this same factor of size tends to dwarf the importance of any one offering in the advertising. The merchandise of one department or several related departments, if standing alone in an advertisement, would have the reader's full attention; but when it appears as only a small part of a large advertisement, it is either entirely lost to the attention or gets only a fleeting glance.

With such a sale, it is necessary to employ extra help. Being only part-time help, extra salespersons cannot be expected to be so efficient or so thoroughly "sold" on the store's ideals and policies as is the regular staff However, they meet the customer as the representative of the store; therefore, the mistakes they make and the lack of service to customers results in the loss of good will, for the public does not make allowance for the unusual conditions under which the store is operating at the time.

Because of the crowds attracted to the store, shopping becomes difficult It is possible to attract too many people into the store If people have difficulty in getting through the aisles, in getting up to counters, and in being waited on, if they have a long wait for overcrowded elevators and suffer other like inconveniences, it is easy to see why the shopping trip through the store will be considered anything but a pleasure. With such large crowds handling the merchandise, it is harder to prevent shoplifting A greater volume of damaged and shopworn merchandise will result because of the inability of the salespeople to care for the goods.

After a big store-wide sale is over, there frequently comes a letdown The whole store has been geared to a high speed; and

because the necessity for this has passed, the tendency is to relax too much

Because of the disadvantages attendant on a store-wide sale, a great many stores are lessening the number of such sales Those they do have are planned and conducted in such a way as to lessen as many as possible of these evils [1]

Special Types of Sale —The Anniversary or Birthday Sale is a common store-wide sale Just why a birthday should be an occasion for a sale may not be apparent at first. However, a birthday or an anniversary is a time for celebration; therefore, the store puts on a sale so that its customers may through the purchase of these special offerings celebrate with it. Marshall Field and Company in celebrating its seventy-fifth anniversary told the story of the growth of the city and store through those years. It told of the principles that had governed it since its beginning, of the services it had rendered in the past, and of some of those it was then offering. Its whole story was of an institutional nature rather than being the description of any specific merchandise or the featuring of price This not only was in accord with the store's general sales policy but in addition gave it an appropriate opportunity to make of the store a civic, if not a national, institution.

Where a store is old, as evidence of its present worth it usually emphasizes the length of time over which it has been rendering the retail service to the community. "Buy in the same store that your parents and your grandparents have patronized" is the idea If the store is young, it usually tells of its rapid growth and of the quick and enthusiastic reception of the store's policies by the public. Any type of store can develop in its own way the anniversary or birthday theme for a sale.

A dollar day is used by many stores to stimulate buying Merchandise in various departments is especially priced at $1 for the day. Some of this merchandise may be purchased just for this sale; other offerings are made up of regular merchandise marked down.

The 1-cent sale is used frequently by drugstores. By paying 1 cent more than the price of one article the customer can get

[1] The Sales Promotion Division of the N R D G A passed a resolution that the store-wide sale "method of stimulating business is not conducive to the best interests of either the public or the store."

two units of that article. Where the regular price is 20 cents, the customer can buy two for 21 cents. This privilege will apply only to those articles which the store may designate. Naturally, these will be articles that carry a high markup so that the loss involved will be as small as possible. Such articles are used to attract people into the store, the profit being made on the sale of other merchandise to these people.

One store has at intervals a George Washington sale for the disposal of slow-moving merchandise. At this time the absolute truth about the articles is told in plain fashion For example: "Nobody wanted this davenport at $145. Will it appeal to you at $79?"

Remnant and odd-lot sales are frequently held by department and dry-goods stores to clear their stock of these articles. White sales held by these stores feature linens, yard goods, underwear, and similar articles.

Combination sales have been held by certain stores Various articles are grouped together and sold as a lot at one price One offering was three $1.50 shirts, three $1 neckties, three 25-cent handkerchiefs, totaling $8.25, for $7, or a saving of $1 25. This reduction was no greater than the markdown would have been on the items sold individually, but at the same time the combination method resulted in a much larger amount per sale.

As a merchant lists the various events, holidays, and special dates in a year, he will see that a large number of them offer him an opportunity for special sales promotion. A partial list would include

St. Valentine's Day
St Patrick's Day
Easter
Automobile show
Baby week
Child-health day
Garden week
Straw-hat day
Mother's Day
June graduation
Father's Day
June weddings
Vacation season
Fourth of July
Home-furnishing week
Canned-goods week
Labor Day
School opening
Farmer's fall festival
Halloween
Thanksgiving
Christmas

Around certain of these events the store develops some appropriate special selling effort. The type of merchandise offered, the advertising, and the display all can be centered in the partic-

ular event that supplies the theme for the sales-promotional effort [1]

Special Promotional Periods.—The spring opening, the fall opening, and the Christmas season are three of the important promotional periods of the year. The two openings are used to stimulate interest in the new style merchandise.[2] The selling emphasis is on style and exclusiveness rather than price; thus, these openings are different from special sales The merchandise as a rule is bearing the highest markup of the season, because the people buying at the opening are willing to pay for the style distinctiveness of the goods—an attitude that is not found among those buying at special sales later in the season.

The store will spend a great deal of effort in directing people's attention to the style element of the new merchandise. Special effort will be used in planning and building the window displays and interior displays so as to center the customers' minds on the beauty and style of the goods. The advertising will be planned with this same thought in mind. In addition to all the above-mentioned efforts, the store or department may have a style show. This type of sales promotion is, of course, most commonly used in the sale of women's wear. The show, or review, usually is held in the store itself (although some outside place, such as a theater, may be used), and the new styles are shown on living models. The store's prospective customers are invited to attend the style show and see what the coming season has to offer as shown by the clothing worn by the living models.

As a result of the store's emphasis on the style element, when the customer looks at the merchandise in the store, she, too, is thinking first of beauty, style, and distinctiveness rather than of price. She is willing to pay a higher price to get the merchandise that has greater beauty and the latest style.

The Christmas season is, for many stores, the period of heaviest selling. For the store, it is the culmination of a long

[1] For an interesting list and brief explanation of a number of unusual sales events, see *Unusual Sales Events for Retailers*, pamphlet published by the Policyholders Service Bureau, Metropolitan Life Insurance Company

[2] The idea of spring or fall opening ordinarily is not thought of as applying to grocery stores. However, a certain Southern grocery with annual sales of over $1,000,000 stages each year a formal fall opening Manufacturers supply samples or regular merchandise for free distribution to the visitors on the day of the opening

period of buying and planning for the Christmas trade. For several years the attempt has been made to lengthen the Christmas buying season by teaching people to "do your Christmas shopping early." To the extent that this attempt has been successful, it has helped the store and the customers as well by lessening the nerve-racking rush of the last few days before the close of the Christmas season. By spreading the Christmas buying over a longer period the customer can do her buying under more favorable conditions and the store can better control all its activities

In order to encourage early Christmas shopping the store plans its Christmas campaign with that idea in mind. It sets a date on which, in the advertising or other promotional efforts of some departments, mention will be made of the approach of Christmas This starts people to thinking of their Christmas shopping The date is then set for the formal Christmas opening, the time when the store will put its whole emphasis behind the Christmas selling. The advertising, window displays, and interior displays all emphasize the holiday theme and do their part in getting the customers into the holiday buying spirit.

Planning the Sales Promotion.—The sales-promotional planning might be divided into two parts: (1) the season's plan; (2) the planning of each sales event. The season's plan calls for a sales-promotional calendar As the merchant looks over the coming season, he can enumerate any number of events that might be incorporated into the store's sales program [1] These possible special selling periods or events range from the Christmas season to the opening baseball game A number of these events have already been mentioned. Those events chosen as the basis of special sales-promotional efforts then are arranged in chronological order, showing the beginning and the closing date of each event if it lasts over a day. After this is done, the merchant can see how well balanced his sales calendar looks There will be some periods of time when, because of lack of selling events, there will be a dull period. This offers an opening for some specially devised sales event.

[1] L. S. Ayres & Co., Indianapolis, tied up their sales promotion with the automobile show in the city by their promotion of "New Model Cars for Baby, Too!" Their advertising carried out the show idea by picturing a new line of baby carriages being inspected by babies.

A merchant will try to spread his sales events as evenly throughout the year as conditions will permit; this will allow him to use his personnel and equipment at as near full capacity at all times as possible.

When this sales calendar is completed, it will show a sales-promotional event of some nature planned for almost every day of the season. This sales-promotional calendar, as is true of all the store's planning, will be adjusted somewhat as the season advances Some events will occur that were not foreseen. The sales records of the store or department may show a need of stimulating sales Some special sales event must then be planned to care for the situation that has arisen

Each special sales event that is included on the sales-promotional calendar calls for careful planning before the date of that event. The need for this is apparent when it is remembered that all parts of the store may be concerned in the sale

In some cases the store may start eight weeks before the event to plan for it. One store has the following promotional schedule for important sales events.

1. Eight weeks in advance—scout major trends
2. Seven weeks in advance—outline major themes
3. Five weeks in advance—promotion plan outlined
4. Four weeks in advance—final and revised promotion plan

Execution and Follow-through

Schedules

1 Newspaper—days, papers, amount of space
2 Radio—days, time, stations, program
3 Auditorium shows for public
4 Window displays
5. Interior displays
    a. Large trims, counter displays
    b. Case trims, post trims
    c. Elevator cards
6. Free publicity—news stories (angles)
7. Salespeople—meetings, "shows," informative material

All the parts of the store must work in harmony toward a common goal—the success of the sale. As one merchant has said, "A sale will be successful in proportion to the care which is exercised in getting ready for it, and carrying it through."[1] There are six questions that should be carefully considered and to which answers should be provided for in advance.

[1] *Unusual Sales Events for Retailers*, *op. cit.*, p. 3.

1. *Is the Merchandise Satisfactory?*—The store must be certain that the merchandise advertised for the sale is on the selling floor when the sale opens and is as described in the advertisement. Some stores refuse to let an advertisement be approved until the merchandise is ready for sale; this is to protect the store against the loss of customer good will because of any failure to have on sale merchandise advertised for sale Suppose a buyer thinks the merchandise will be ready for sale and so approves the advertisement, but the merchandise actually does not go on sale; as a result the people who have been brought into the store by the advertisement will be disappointed and will lose faith in the store's word. A mistake of this kind means a loss of good will. The merchandise must not conflict with the store's standards. It must also correspond in all details with the description given in the store's publicity

2. *Will It Be Necessary to Add to the Selling Space?*—When a department is having a special sale, it is altogether possible that it may need more space in which to display and sell its merchandise. It has bought an extra quantity of merchandise and expects an extra-large number of shoppers; thus, it may need more space for display and selling purposes. Arrangements must be made to provide the department with the needed space in time for it to get its merchandise arranged there for the opening of the sale.

3. *What Advertising Is Necessary?*—The public must be given information concerning this sale; therefore, the services of the advertising department will be sought. It must be determined how much will be spent on advertising this sale. Expected sales will be a prominent factor in arriving at this amount When should the advertising appear, to be of the greatest value? Will the advertising consist only of newspaper advertising or will there be some direct-mail advertising and other special forms? What reasons will be given in the advertising matter for holding this sale? The public is curious and wants a satisfactory reason given by the store for putting on such a sale. This reason may be a special purchase by the store, a clearing out of seasonable stock, or a showing of new merchandise.

4. *What Window and Interior Displays Will Be Used?*—The buyer will want to tell his story through the store's windows as well as through its advertising; therefore, he will request a certain

amount of time for this merchandise in some of the store windows The amount of use that he will get of these windows depends largely on the emphasis the store as a whole places on this sale. He may be prevented from using any of the windows, or the more valuable windows, because such use is against the store's policy. The store may not want to display "sale" merchandise in its windows It may, also, prefer not to display the merchandise of certain departments, kitchenware, for instance, because it feels that this would detract from the store's style prestige

When the buyer is allotted so much time and space for window display, the merchandise to be displayed must be selected and ready to go into the window at the proper time Some displays within the store may be provided either to display the merchandise or to create atmosphere for the sale

5. *Must Extra Help Be Provided?*—Just the fact that a department expects extra sales does not in itself mean that a larger sales force will be necessary, for it is seldom that the regular sales force is working to full capacity. However, in many instances, if any appreciable increase in sales is expected, it will be necessary to add to the salesforce. At times, this extra help can be drawn from other departments. At other times, it must be hired temporarily for the sale. The personnel department should be told what need there will be for extra salespeople in plenty of time for it to make any necessary arrangements.

6 *Will Extra Equipment Be Needed?*—There may be a need for extra cash registers, counters, and other equipment. These needs must be foreseen and provided for in sufficient time so that everything will be in order by the time the sale opens.

Basement Stores.—The basement store originally was developed as an outlet for the old and slow-selling goods of the main store. In short the bargain basement was a veritable junk shop where cheap, old, soiled, and antiquated merchandise from the main store was disposed of at the best possible price in the shortest time. This type of bargain basement probably evolved naturally from the use of aisle tables to clear out merchandise unsalable in the regular departments. The success of these bargain aisle tables probably led to the devoting of the basement floor entirely to the sale of "bargain" merchandise. By segregating such merchandise in the basement, more effort could be

expended in selling it; there would also be the advantage of having it physically separated from the regular merchandise.

The trend today is away from the basement store as an outlet for the discarded merchandise of the main store and toward the development of the bargain basement as a separate merchandising institution with its own organization and staff of buyers. These modern basement stores, merchandised separately from the main store, can be divided into two main types according to the general type of merchandise carried: (1) the basement store that handles job-lot merchandise; (2) the type that sells new merchandise in regular lines to a lower class of trade than the main store has been reaching

The main advantage of the job-lot type of basement store is that it gives opportunity for big special sales and big selling days. However, there are many factors that make this type of basement store unsatisfactory, such as the large markdowns often necessary because of bad assortments in the job lots, the difficulty that a customer, who has once been satisfied with a purchase of job-lot merchandise, has in getting the same thing later, and the difficulty of obtaining good job lots when wanted These disadvantages have increased the tendency toward regular lines for basement stores

Most basement stores either have developed or are tending to develop regular lines of goods. The chief difference between this second type of basement store and an upstairs store is in the price lines carried. The plan ordinarily is not to carry *cheap* merchandise in the basement, but rather simply merchandise in lower price lines[1]; this enables the store to secure the patronage of a wider clientele.[2] Such basements try not only to be price-right but fashion-right as well

In the operation of the basement store, it is very important that the sales in the basement interfere as little as possible with the sale of the merchandise in the main store. Some stores have a separate street entrance for the basement store with little or no direct connection with the main floor; people who patronize the

[1] Strictly speaking, this type of basement store is not a "bargain" basement, but rather a downstairs or basement store catering to a somewhat lower class of trade.

[2] The Marshall Field and Company basement store is an outstanding example of this second type.

basement store are thus prevented from adding to the congestion on the main floor. An arrangement of this kind is especially likely to be desirable when the basement store is appealing to an entirely different class of trade.

The store must also guard against a conflict of offerings in merchandise between the main store and the basement store. If a customer visits both parts of the store and sees the same merchandise sold at two different prices, she is inclined to think that the upstairs price has been boosted unnecessarily. During the depression years, with the general decline in prices, there was a distinct tendency for upstairs prices to overlap and encroach upon the basement prices. One New York department store, because of the duplication of price lines brought about by the general decline in prices, closed out its bargain basement and relocated its departments so as to concentrate on the lines most in popular demand.

The success of a basement store depends to a large extent upon a high rate of stock turnover. Because the percentage of profit on the merchandise is not high, there must be a high turnover. One interesting method of insuring a rapid turnover of the goods is the automatic reduction plan used by the basement store of the Wm. Filene's Sons Co in Boston. The plan operates as follows:[1] The merchandise is offered at the original price for for the first 12 selling days. At the end of that period, any remaining units of merchandise are marked down 25 per cent of the original price. After 18 selling days, any remaining items are marked down 50 per cent from the original price, and at the end of 24 selling days a markdown of 75 per cent is taken Any of the merchandise that is in stock at the end of 30 selling days is given away. By this system a minimum turnover of merchandise once in 30 selling days is insured. Because the first reduction eliminates all expected profit, the basement buyers must be continually alert to interpret the demands of the clientele so accurately that these automatic markdowns will not be necessary.

Telephone Selling.[2]—Many stores during the past few years have been making greater use of telephone selling and have found it an effective means of sales promotion.

[1] FILENE, EDWARD A., *The Model Stock Plan*, pp. 90–91.

[2] For detailed discussion, see NORRIS A. BRISCO, *Telephone Selling*, Prentice-Hall, Inc, 1940.

Telephone selling may be done in two different ways. Probably the most common way is for the store to encourage its customers to call by telephone when they want merchandise. One common example of this method is found in the ordinary service grocery with its frequent deliveries of goods, most of which have been ordered by telephone. Some large department stores have extended their trade territory by paying the toll charges on telephone orders of customers in near-by towns.

If the store desires to encourage the practice of having customers order by telephone, it must have enough telephones and trained operators so that the customer can get service when she calls. These operators (usually girls if the store has to maintain a relatively large staff) must be familiar with the merchandise in the various departments The store should carefully consider whether or not the telephone service is worth while in view of the cost of the calls and the resulting delivery expense. The store must consider not only the volume of merchandise sold by telephone and the estimated profit on these sales, but also the good will that such a service builds This good will will bring these same telephone customers into the store where they will make other purchases.

The other form of telephone selling is that in which the store calls up the customer to give her information concerning articles that the store has for sale. The call may be to tell her of the arrival of new merchandise or of some special sale that the store is having Where the store chooses this information wisely, the average customer appreciates such a service. The girls whom the store selects for such calling should have pleasant voices and be sufficiently familiar with the merchandise of the store so that they can quickly get any information that the customer may desire.

The telephone message must be given in such a way that it seems to be a personal conversation If spoken in a mechanical, parrotlike manner, it loses much of its force Also, the method becomes ineffective if a customer is called too frequently The best time for making such calls is said to be from 9:00 A.M. until after lunch time. The store itself is less busy at that time, and the customer is likely to be at home and to have time to receive the call.

Outside Salesmen.—Many stores have successfully used out-

type of direct selling by a store is used particularly in the sale of articles that need demonstrating, such as vacuum cleaners, articles needing servicing, such as radios, or articles such as pianos, in the sale of which the store must help convince the prospective customer of her need for the merchandise. The increasing importance of department stores as outlets for electrical merchandise during the past few years has brought about an increase in their use of outside salesmen. By the use of outside salesmen the selling campaign is carried into the customer's home where frequently she can be shown the product as she would actually use it. This demonstration of the product in use makes it seem more real to her and helps intensify the realization of her need

In the case of some stores, these outside salesmen spend their full time at this form of selling. However, more often they are regular employees who spend a part of their time selling outside the store; this time may be during the part of the day when fewer customers are in the store or during slack seasons in selling

A store may feel it desirable to send these salesmen from door to door through certain sections on the assumption that all the people seen are potential customers This assumption probably would be true for a hardware and implement store sending its salesmen through a country district. Where there is not a universal demand for the article, the store should choose prospects for its salesmen to call upon Such a list of prospects can be secured from inquiries concerning the article that people have made at the store. A satisfied customer will frequently tell of other people who should have the article. Salespeople should be encouraged to give the names of prospects. With such a list the store's outside salesmen will make fewer calls on uninterested people.

Many stores prepare the way for their salesmen by sending the prospects, previous to the salesman's call, some direct-mail material concerning the article. Stores in the smaller towns have used outside salesmen as part of their campaign against peddler houses and mail-order concerns.

Personal-shopping Service.—Large department stores have installed bureaus to render a personal-shopping service for their customers. This service will include the filling of orders received in customers' communications. For example, a customer from another town or someone away on a vacation writes in to the

store, describing the article she wants. It is the job of the personal-shopping bureau to find the merchandise that will answer the customer's request.

At time, customers in the store come to the bureau for help in selecting gifts and other articles. A representative from the bureau will go with the customer on her shopping tour to give the requested advice. Many unusual duties are often required of such a bureau, such as, for example, the providing of interpreters for foreigners purchasing in the store. Because of the variety of duties required of the personal-shopping bureau and the effect of its work upon the good will of the store, the bureau must employ personal shoppers (usually women) who possess tact, personality, and a knowledge of the store's merchandise.

The personal-shopping bureau is frequently personalized under an easily remembered name of a fictitious individual In one store, it is "Mary Martin" All correspondence from the bureau is signed by "Mary Martin" regardless of who is in charge of the bureau at that time This method makes the service seem more like a personal service even though the store may be a large institution. By using a fictitious name the good will that is built up around such a name remains with the store even when the personnel of the bureau itself changes

A small store cannot set up a separate organization for this form of sales promotion. Similar duties, however, are frequently performed by the proprietor or one of the more experienced salespeople. Even if it does not have a separate organization for this personal-shopping work, it can encourage its customers to look to the store for such a service. When this is done, one person in the store should be held responsible for seeing that such orders are properly cared for.

Demonstrations.—In some cases, it is a desirable form of sales promotion to give demonstrations in the store of an article in actual use. There is a selling appeal in action and doubly so when the action is the normal use of a product. Hearing a radio, seeing a vacuum cleaner remove dirt from a rug, or tasting a new line of biscuits will attract the prospective customer's favorable attention It interests her in the product and shows her how the product satisfies her needs

The average store feels that such demonstrations, where possible, should be carried on by the store's own salespeople. If

the manufacturer's representative is conducting the demonstration, it is only natural that he would be more interested in the sale of his product than in the best interests of the store As a result, he might push the sale of the product in a way that would be detrimental to other merchandise or to the good name of the store itself. The question has been raised whether or not it is fair to the public for the store to use such demonstrators without identifying them as representatives of the manufacturers. In most stores, they wear an identifying button or are set apart in a separate booth so that the public can tell at a glance that they represent the manufacturers rather than the store.

Trading Stamps.—A trading stamp is a stamp that the store gives at the time of a cash sale These stamps may be redeemed by the holder in goods, in credit at the store, or in cash. Some stores using trading stamps also give stamps to charge-account customers who pay their bills by a certain set time. These stamps may be provided by a store itself; or, more often, a trading-stamp company sells these stamps to the store.

Previous to the depression period, trading stamps were decreasing in importance as a sales-promotion device. During the depression years, however, the search by retail stores for ways of bolstering their falling sales volume resulted in the adoption of trading-stamp plans by many stores. Reports from these stores have indicated that the plan has resulted in: (1) increased sales; (2) an increase in the ratio of cash business and a decrease in the cost of operation, (3) a lessening of the advertising cost; (4) an improvement in the speed of collecting the charge account. The general manager of one department store gives the following five reasons for his enthusiasm over trading stamps: (1) They not only bring customers into a store but serve as a virtual assurance of continued patronage. (2) They make customers less critical of service. (3) They make for a more prompt payment of monthly statements. (4) They tend to lessen dishonesty on the part of salespeople. (5) They influence buying in more than one department

In spite of the many advantages claimed for the use of trading stamps by different merchants, their use as a sales incentive is questioned by many retailers and is openly opposed by some in the retailing field. Regardless of what else is said, their appeal from the customer viewpoint is largely the old appeal of

getting something for nothing. As a result, they are a form of publicity that centers the attention of the customer on something entirely apart from the qualities of the merchandise being sold. For that reason alone, if for no other, trading stamps tend to be an undesirable form of promotion, especially when used over considerable periods of time.

Gift Certificates.—At Christmas time, some stores sell gift certificates. The person to whom the purchaser gives these gift certificates can then go into the store and make his own selection of merchandise to the amount named in the certificate. Some candy stores advertise these gift certificates throughout the year. They can be purchased for any number of pounds. The recipients of such gift certificates can go to the candy store at any time and exchange the certificates for boxes of candy.

Dealer Helps.—Manufacturers of most nationally advertised goods supply a large number of dealer helps to be used in window and interior display and for inserts in packages and monthly statements [1] Because of the large number of these which come to a store, it is apparent that only a part of them can be used. Stores differ widely in their policy concerning dealer helps Some feel that they detract from the store's reputation for style and quality. As a rule, the more exclusive a shop, the less use it makes of dealer helps On the other hand, there are stores that have their windows, counters, and display cases covered with such material.

The general appearance of the store's interior should be kept in mind in using dealer helps Do they give a real selling message that will be a help to the store? Will they place more emphasis on a commodity than its sales volume will justify? Will they aid or detract from the reputation that the store is building for itself?

Cooperative Effort.—The present-day merchant is more and more realizing that frequently the most profitable policy is not that of fighting his competitors but rather that of cooperating with them toward the common good. By working with them, he can help build a community feeling that his particular town is a good place in which to trade; thus, less trade is lost to surrounding trade communities. The same principle might be applied to a shopping district in a city.

[1] "Producers Must Plan Statement Inserts from Retail Viewpoint," *Women's Wear Daily*, Feb. 5, 1941, p 30.

When all the stores in a town put their efforts behind a "Farm-festival Week," an "Auto-show Week," or some other special promotion, it is bound to have a greater power of attraction than if only one store were promoting it Harry W. Schacter, president of Kaufman Straus Co., Inc., Lousiville, Kentucky, has suggested the following forms of cooperative promotion:

1 A uniform spring opening for entire city.
2. A uniform fall opening for entire city.
3 A city-wide selling day
4 The elimination of August fur sales, or the holding of them all at one time.
5. A uniform opening for both February and August furniture sales.
6 A uniform Christmas opening
7. A unified drive for quality
8. The elimination of fashion shows held outside the store.
9. A radio course for the consumer.

Store Distinctiveness.—Just as a manufacturer trade-marks his product so that it will stand out from competing products, so the merchant tries to give his store distinctiveness. If he succeeds in doing this, people think of the store as the Jones Sporting-goods Store rather than just a sporting-goods store. A distinct individuality for a store often is one of the most effective sales-promotional features.

It is especially important that a small store have a distinct individuality. As one retailer has said, "Individualism is the greatest asset of the smaller store. Capitalize on your individuality. Boast about the features and services that make you different from other stores."[1]

Many different methods have been used by merchants to make their stores distinctive Chain stores have used a standardized type of store front with a distinctive color as one means of making their stores stand out from the surrounding stores. A retail drugstore organization operating eight stores in an Eastern city picks out its best four or five stores and gives each a distinct personality; one has the best department for baby supplies in town, one in the heart of the theater-shopping zone goes in for cosmetics, another specializes on prescriptions, and another boasts that its fountain is second to none.

[1] EISENBERG, DANIEL (General Manager, Tepper Brothers, Plainfield, New Jersey), *Retail Ledger*, February, 1933, p. 6.

The uniforms of the salespeople or the unusual type of delivery equipment may help give the store a distinctive character. The method of layout may be unusual and so set the store apart. The merchant should remember that not only should the store be different but, even more important, it should be pleasingly different.

Building an atmosphere about a store helps to give it distinctiveness College shops try to have a collegiate atmosphere Exclusive shops try to build up an atmosphere of exclusiveness, which of course makes them more attractive to their customers. The layout, the decorations and displays, the manner of the sales force, the spirit of the advertising, and many other factors all help to develop the type of atmosphere desired in a store.

Other Forms of Sales Promotion.—Many other forms of sales promotion may be used by stores. Some of the sales-promotional methods that are used seem to have no direct bearing on the sale of merchandise. For instance, one store in Pittsburgh stages an eight-county fair in which any farmer or housewife in that area may enter products in competition for a long list of prizes. Contrast that form of sales promotion with a method used by a store in Miami, Florida, for store-wide promotion of departmental specials. Several times each month the customers of that store notice that the salespeople wear little badges calling attention to some offering being featured that day. The special may be men's shirts, or silk frocks at $10.75, or towels, or shoes, or any number of other articles. Only one item is stressed at a time, but everybody is advertising it and is prepared to talk about it. Clerks, floormen, elevator operators—all are wearing the badge calling attention to the special.

None of the above methods, and for that matter very few sales-promotional methods, can be judged simply as a method entirely separate from the store using it. A method that proved very effective in one store might be a complete failure in another. The merchant's problem is to select sales-promotional devices that are practical for his store and then to see that they are properly carried out so as to be most effective.

CHAPTER XVIII

RETAIL ADVERTISING

Functions of Advertising.—Advertising and personal salesmanship are two powerful means of sales promotion They are of such importance that a separate chapter is devoted to the discussion of each. The great object of retail advertising is to make friends of people so that they will come into the store to make purchases The advertising must influence the consumer to think favorably of the store's merchandise and service if it is to secure her trade The store advertising can accomplish this fundamental purpose if it takes the customer's viewpoint and helps her do her buying. It must be based on a careful consideration of such questions as: What does the customer want? What does she want to know about the merchandise that she desires? When the advertiser plans his advertisement from the customer's viewpoint, the need for helpfulness and truthfulness in the store advertising becomes more apparent. Unless the advertising message tells what the customer wants and needs to know and tells it in a truthful manner, the store cannot hope for permanent good will and lasting sales volume of satisfactory size

The work of advertising never ends. People quickly forget. Having been told a thing today, the public must be told the same thing tomorrow, possibly dressed in different words; otherwise, it will forget ever having heard it. Thus the store must advertise continually, telling its customers about the things it has to satisfy their wants and at the same time creating new wants in the customers that the store is ready to satisfy

The merchant must not lose sight of the fact that advertising is a means to an end rather than an end in itself. The store wants to build permanent good will and to sell merchandise. If the advertising program of the store does not help accomplish this twofold purpose, it is a failure No matter how good looking the advertisement may be, how well sounding the copy, or how beautiful the illustrations, the advertisement is a complete

failure if it fails to make friends for the store and to help in selling the store's merchandise Only as the merchant takes the consumer's viewpoint can the advertising of his store perform its real function. By serving the customer the advertisement serves the store.

Advertising Policies.—Underlying the advertising of a store there should be certain carefully thought-out policies. Such policies are the general policies of the store itself that apply to advertising What is the store trying to do? Is it trying first of all to build up sales volume? Is it building a reputation for underselling? Is it trying to create an atmosphere of style and exclusiveness? If one of these ideas represents the aim of the store, then the store should mold its advertising policies around such an aim. Nothing should be permitted in the store's advertising that would detract from the store's endeavor to reach this aim.

Because the advertising is one very important mouthpiece of the store, it must correctly proclaim the store The chief rule, then, to guide a store in determining its advertising policy is that the advertising shall conform in style to the standards and character of the store itself. An exclusive store would not think of employing a sensational style of advertising. A store that prides itself on underselling its competitors naturally will emphasize price in its advertisements much more than would the exclusive specialty shop.

The policy of one store may be to use a certain kind of type, border illustration, or general plan of layout The reader becomes familiar with this distinguishing mark and recognizes the advertisement at a glance as being the store's message. After having determined a general advertising policy, a store should follow it consistently (unless, of course, special conditions make a change desirable), because consistency in advertising tends to show that the services and quality of merchandise of the store will be consistent to certain standards. Not only should the various advertisements be consistent, but, in addition, the various parts of an advertisement should be consistent with each other and with the policies of the store. Some stores display a Tiffany front in one section of an advertisement and a bargain-basement appeal in another part of the same advertisement.

One advertising policy about which there is considerable difference of opinion among stores is the policy concerning the use of comparative prices in retail advertising. Comparative prices are statements in the advertisements comparing the specific prices on the articles with previous prices, prices of other stores, or prices the goods are estimated to be worth. For example, "Price $7 75, Was $10" or "Price $7 75, Value $10"

The chief disadvantage of comparative prices is the possibility of their misuse. Because there are so many chances to exaggerate the alleged value of an article in using comparative prices, some stores make no use of them; certain other stores use them only under certain conditions and in certain restricted forms. The value of comparative prices as a selling point varies among different communities and among different stores very largely according to the accuracy and truthfulness with which they have been used.

Many merchants feel that if comparative prices are not misused they serve a purpose from the standpoint both of the store and of the customer. They make it possible for the store to point out more easily special values and thus may be very effective selling points; through the proper use of price comparisons the customer is better able to judge a bargain when she sees one. If price comparisons are used not on every occasion but only when the offering is an unusual bargain, the result is more effective. The National Better Business Bureau and many other agencies of various types are attempting to set certain standards in the use of comparison prices so as to lessen and, if possible, finally eliminate any misuse of them. To the extent that this purpose is accomplished, comparison prices will take their proper and useful place as a feature of retail advertising.

The Advertising Department.—In a small store the advertising work is one of the many duties of the proprietor. Seldom does it receive from him the attention it deserves, this is due partly to his lack of time to devote to it, partly to his failure to realize the importance and possibilities of advertising, and partly to a lack of knowledge on his part of advertising technique If the small-store merchant realizes the possibilities of advertising, he often is in a much better position to do effective advertising than is the advertising department of a large store. Although he lacks a

knowledge of much advertising technique, he is closer to the needs and desires of his customers, which after all are the true basis for all effective advertising. Almost all manufacturers of the advertised brands he carries prepare advertising helps for him.[1] These include interior-display cards, pamphlets suggesting interior and window displays, direct-mail material, and mat services By making intelligent use of these prepared advertisements the small retailer can greatly improve his advertising

The larger stores will have a separate advertising department. In a medium-sized store the personnel of such a department may be simply one man and his stenographer. In some of the largest of the department stores, there may be 15, 20, or even more people employed in the advertising department. In addition to the executives in the department, this number would include copy writers, artists, typographers, proofreaders, stenographers, and file clerks. The work of an advertising department of a retail store ordinarily is much larger in scope than is that of the advertising department in a manufacturing concern of the same size; this is true because the retail store ordinarily prepares its own advertising, whereas a manufacturing concern of fairly large size turns a large part of its advertising work over to an advertising agency [2]

There is no complete uniformity of practice as to the place of the advertising department within the organization [3] Some stores make the advertising manager subordinate to the merchandise manager. Others place him on a par with the merchandise manager, having both report directly to the general manager of the store. The personalities of the people concerned often seem to be the factor that decides the relation between the advertising department and the merchandise department

In some stores the advertising department is one of two parts of the publicity department, the other part being that of display, which includes both window and interior display Each of these

[1] LEAHY, WILLIAM J., "Mr National Advertiser Must Learn Anatomy of Small Store," *Women's Wear Daily*, Mar 19, 1941, p. 31

[2] There are two chief reasons for the small use of advertising agencies by retail stores: (1) Retail stores usually obtain the low local-newspaper rates, which allows for no agency commission. (2) Retail advertisements ordinarily are prepared only a very short time before being run, and thus it would be difficult for the outside agency to operate in such a case.

[3] See Chap. VI, "Store Organization."

two parts of the publicity division has a manager in charge of its work who reports to the publicity manager.

Advertising Records.—One of the duties of the advertising department is to keep records of the store's advertising and the results obtained This record may be in the form of a sheet that includes spaces for a statement of the merchandise advertised, the date on which advertised, the newspapers carrying the advertisement, the size and cost of the advertisement, the weather conditions on the day when merchandise was offered for sale, the amount of advertised merchandise sold, the normal amount sold, the cost of advertising as a percentage of sales, and an estimate of the number of people who visited the department, presumably drawn there by the advertisement.

The weather conditions on the day of the sales are recorded because of the effect these have on the volume of sales If it was a stormy day, this fact, rather than any fault in the advertising or the merchandise, would no doubt account for the small volume of sales If this information is not recorded, the buyer or the advertising manager, when looking over the past advertising records and noting the small sales, would say that this article did not seem to be a good one to advertise.

The day of the week on which the goods were sold may have a bearing on the volume of sales [1] In some of the larger cities, Monday is considered the best shopping day. In the small towns, Saturday is the principal shopping day. Merchandise advertised for sale on these days may have heavier sales than if offered on other days. A notation must be made of the newspapers in which the advertisement appeared because of the different pulling power of the different newspapers.

If the merchandise advertised has also been displayed in the windows, a notation should be made in the advertising record. Such a display would increase the publicity and should increase

[1] EDWARDS, CHARLES M, JR, "Do You Advertise on the Right Day?" *Journal of Retailing*, April, 1940, p. 43 This study of New York City newspapers showed the following distribution of seven department stores' advertising in percentages.

Sunday	28 1	Thursday	11 2
Monday	8.8	Friday	18.6
Tuesday	11 0	Saturday	1 1
Wednesday	21.2		

the sales, for the pulling power of the window is added to that of the advertisement. As a merchant looks over his past record, he should keep these various points in mind in judging the worth of his past advertisements.

In some stores a scrapbook is kept in which appears every one of the store's advertisements clipped from the newspapers or a newspaper proof of the advertisement. These clippings or proofs are pasted in the scrapbook, and on the same or adjoining sheet is recorded all the necessary information concerning the advertisement and its results. There may also be criticisms of the advertisement, which become apparent after the advertisement has appeared. Later, when this record is being studied, the cause of the criticism can be avoided in the preparation of future advertisements A scrapbook of the advertisements of a competitor's store is kept by some stores to help them study the publicity of their competitors.

One store that does extensive advertising each day makes a photostatic copy of the day's advertisement to put in the scrapbook in place of the advertisement itself Because the photostatic copy is much smaller than the original advertisement, there is a considerable saving of space and bulk in the scrapbook

Much of the information needed for such records will have to be supplied to the advertising office by the buyers of the departments concerned. However, they will benefit by these records just as much as the advertising department, for both are concerned in having the advertisements as effective as possible. By studying these records of past advertising, both the buyer and the advertising department are better prepared to plan and execute the advertising for the present and the future.

The Advertising Budget.—Just as the merchant should plan his merchandising operations in a merchandise plan and his expenses in an expense budget, likewise he should plan ahead for his advertising In reality the advertising plan, or budget, is simply the enlargement of one item in the expense budget, that is, the advertising expense The chief advantages that arise out of the definite planning, or budgeting, of advertising expenditures are: (1) The management of the store knows the amount to be spent for advertising. This knowledge is necessary, both because the year's expenses must be determined so that a minimum initial-markup percentage can be set for the store and

because scientific operation is not otherwise possible. (2) The department manager (buyer) has a definite plan to follow in his advertising campaigns, having the knowledge of how much he has to spend and when he should spend it to maintain his sales volume. (3) The advertising department knows how much money it has at its disposal for its activities throughout the year (4) The budget, or plan, allows for flexibility in meeting the changes in climatic, economic, and market conditions

The figures in the advertising budget should be determined by two factors: (1) past experience; (2) present needs[1] As the merchant looks back over his sales and expense records, he will see what he has spent for advertising and how these expenditures compared with the sales volume These figures should be compared with the results of other stores whose experience is available. The amount of money that can be spent profitably for advertising varies among stores according to their location, their size, and the type of merchandise carried.[2]

As an example, suppose that a store finds from its past records that it has been spending for advertising 3 2 per cent of sales. If it were guided by this figure alone, it would then apply this 3 2 per cent to the planned sales for the coming season in order to determine the planned-advertising appropriation If, however, the merchandising and promotional plans of the store differ radically from those of the past periods, the store may desire either to increase or to decrease the percentage of sales that has been going into advertising. Then this adjusted percentage of the planned sales is taken in order to get the total advertising appropriation for the season

Thus, by studying his past sales and advertising records and his merchandise plan and sales-promotional calendar for the coming season, the merchant has a basis for determining the

[1] Other methods of arriving at the advertising appropriation are: (1) the setting of an arbitrary percentage of sales to be used each year for advertising; (2) spending money for advertising as the management decides conditions warrant the expenditures; (3) getting estimates as to the costs of mediums and deciding on the mediums. Then the total cost is the advertising appropriation.

[2] "Some say advertising should cost 3 per cent of sales, or 5 per cent of sales. I say the advertising cost should be what it takes to sell goods at a profit" This statement by Amos Parrish was quoted in the *Retail Ledger*, February, 1935, p. 7.

total amount to be spent for advertising during the period. This total amount must then be broken down into monthly amounts so that the advertising effort will be properly distributed throughout the season. Some merchants simply apply the season's advertising percentage to the planned sales of each month in order to determine the advertising allowance for each month. This method has the advantage of simplicity but is open to the objection that the need for advertising does not always correspond to the variations in sales volume. A relatively large dollar amount spent in advertising a special sale may, because of the large sales volume resulting from this special sales effort, be below the average percentage of advertising to sales. The same situation may be true of the Christmas season. The amount of advertising is large; yet when the advertising expense is divided by the sales, the resulting percentage is lower than the advertising percentage set for the season as a whole. During dull parts of a season the store may find it necessary to do a much larger amount of advertising in proportion to the sales volume in order to stimulate people into buying; thus the advertising percentage for those dull months will be larger than the season's percentage figure. The better method of determining monthly advertising allowances is to apply to the planned sales for each month an advertising percentage figure adjusted in the light of the particular needs of each month. The two methods are shown in the following table:

Month	Planned sales	Adjusted percentage	Advertising allowance	Advertising allowance on a 3.2 per cent basis
July	$ 12,230	3.4	$ 416	$ 391
August	13,950	3.4	474	446
September	17,240	3.3	569	552
October	25,575	3.2	818	818
November	24,105	3.2	771	771
December	33,400	3.0	1,002	1,069
Season total	$126,500	.	$4,050	$4,048[a]

[a] The dollar figures are shown to the nearest dollar. This accounts for the difference between the $4,048 (3.2 per cent of $126,500) and the $4,047 which would be obtained by adding the monthly allowances on the 3.2 per cent basis.

In the table, it will be noticed that the dull business months of July and August are given a relatively high advertising percentage figure (although the actual money amounts are smaller than for the other months) In September the new fall and winter styles are being introduced to the public. Many people who became interested through the September advertising will be ready to purchase in October. Because of this need for a comparatively large amount of advertising in September in proportion to the immediate sales, a higher percentage of its planned sales is allowed for advertising than is the case for the entire half year In December the Christmas advertising will require a large amount of advertising expense. However, because the planned sales for the month are large, a sufficient dollar amount of advertising allowance is provided by applying a relatively small advertising percentage to the sales figure.

If the store is one organized on a departmental basis, the amount to be spent on advertising must also be divided among the various departments The total appropriation may be distributed to the various selling departments as a percentage of the planned sales of each However, all departments are not given the same percentage of sales as an advertising allowance. Instead, the percentage of advertising expense varies widely among the departments, primarily according to the nature of the merchandise. Because advertising must attract people not only to the department advertised but to the entire store, the merchandise having the strongest pulling power should receive the greatest share of the advertising. For this reason the advertising percentage is larger in style than in staple departments

After the monthly allowances have been determined for the store, or for the individual departments in the case of stores organized on a departmental basis, these monthly appropriations must be distributed to the various advertising mediums used Then a plan should be drawn up showing how each of these forms of advertising is to be distributed throughout the month. For example, such a plan for newspaper advertising would require decisions on such questions as: What shall be advertised? On what days? How much space can be used for advertising on each of these days? Because unforeseen needs may arise before the end of the month, the original advertising plan of the month should leave a small sum in reserve. As the month passes, if no

need for this has arisen, it can be used to expand some of the planned advertisements

Advertising Mediums.—Any means by which the advertising message is conveyed is an advertising medium The mediums used by retail stores can be divided into five different types.

1. Newspapers
2. Direct-mail advertising
3. Radio
4. Outdoor advertising
5. Miscellaneous mediums

Newspaper Advertising—Of these different types of retail advertising, newspaper advertising is by far the most important form for the majority of stores In many stores, 75 per cent or more of the total advertising appropriation is used for newspaper advertisements. Some time ago the publicity director of one of New York City's largest department stores stated that approximately 85 per cent of the store's annual advertising expenditure was used in newspaper advertising.

Because many stores have more than one newspaper in which they can advertise, they must compare the worth of these different newspapers as advertising mediums. The comparison should be made as to: (1) the reputation and standing of the newspapers in the community; (2) the type and amount of advertising carried; (3) the circulation; (4) the type of people reading the newspaper, (5) the advertising rates and services to advertisers; (6) other factors such as the general appearance of the newspapers and their advertising policies

The general reputation, or standing, of a newspaper in the community is important in that it determines to a considerable extent the confidence that its readers have in it and thus their confidence in the advertising it carries Also, its general reputation may or may not be such as to fit in with the atmosphere of the store itself. For example, an old well-established store with conservative merchandising and promotional methods might question the advisability of advertising in a newspaper using a tabloid type of news appeal.

The amount and type of advertising carried by the various papers are of real importance in the choice of an advertising medium. In some cities a certain newspaper may be so outstanding with respect to the amount of retail advertising that it carries that it becomes known among shoppers as the paper to

read when they wish information on the current offerings of the retail stores. Likewise, certain newspapers may be leaders in the advertising of certain products or groups of products. For example, according to a recent survey, morning papers lead as advertising mediums for food and household commodities.

The circulation of the various newspapers should be a matter for careful comparison; this should include a consideration not only of the amount of circulation but, in addition, of the distribution of the circulation and the methods by which the circulation was obtained A store in a large city would be especially interested in knowing the portions of the total circulation of a newspaper that were in metropolitan, suburban, and outside territory. The methods by which the subscriptions are obtained tend to affect the standing and reputation of the paper among its readers. In the case of some newspapers, predate and prehour editions are printed If the store considers these less valuable for carrying its advertising message, it should take the number and circulation of these editions into account or should have the newspaper's rates adjusted so as not to pay for waste space.

The advertiser not only is interested in the number and geographical distribution of the people reading the paper but, in addition, is concerned with what type they are If the store is appealing to people of wealth, it wants to find a newspaper read by that type The paper read by the greatest number of people may not be the one that is read by this class Department stores usually feel that a newspaper that is carried into the home and read there is a better medium than a paper that is read by business people on the train or at the office Again, a newspaper that is best for one department within the store may not be for another The sporting-goods department may find it advantageous to use a newspaper that most of the departments in the store do not prefer Because women are the chief customers of almost all types of store, the newspaper they prefer is the one that can most effectively carry the store's advertising message.

The advertising rates and services offered to advertisers by the various papers must be considered. A comparison of rates alone is not enough. They have real significance if compared in relation to the effective circulation of the newspapers in question. Many large newspapers have merchandising bureaus whose chief purpose is that of aiding advertisers Any newspaper, no

matter how small, is in a position to give the merchant some aid in the planning of his advertisements.

In addition to these points, many other factors might be considered in choosing a newspaper in which to advertise. The general appearance of the papers might well be considered, especially by those stores advertising style merchandise. The degree of censorship exercised by the various papers on the advertising in their columns is another element worthy of consideration.

The merchant should take an "I have to be shown" attitude in making his choice of newspaper or, for that matter, his choice of any type of medium. Too often, general statements about the advantages and disadvantages of a given form of advertising medium are taken for granted by the merchant as applying to his particular case, without any definite attempt to find out whether or not they actually do. For example, it is said frequently that evening newspapers are better mediums for retail advertising than are morning newspapers Regardless of the truth of this as a general statement, it certainly would not be true in all communities or for all stores As far as is practical, each store should test out the relative pulling power of the different newspapers and thus prove to itself which are the best mediums. To do this the store may insert keyed coupons in the different newspapers which when returned by the customer will entitle her to some special offering. Or merchandise can be advertised in each of the papers at different times and the sales following the different insertions compared. With the latter method, care must be exercised to see that all other conditions are similar at each trial if a comparison of results is to have any real significance

According to some advertisers, the position of the advertisement in the newspaper is of importance, especially in a large newspaper. For example, it is said that certain advertisements will be seen by more prospects if in the financial section, whereas another advertisement might have more pulling power if placed in the society section. However, the Continuing Study of Newspaper Reading[1] shows that, in general, people read an advertisement regardless of its position in the paper Thus, many advertisements in the back part of the paper have more

[1] "Attention for Newspaper Advertising," *Printers' Ink*, Apr. 25, 1941, p. 21.

readers than similar advertisements in the front part of the paper. The same study shows that right-hand pages have about equal attention value with left-hand pages and that the top half and the bottom half of the page are of about equal value It is the advertisement itself rather than its location that determines its value.

Direct-mail Advertising.[1]—Direct-mail advertising includes all forms of material sent through the mail directly from the store to individual customers or potential customers.[2] The forms include letters[3], circulars, booklets, bulletins, folders, store magazines, cards, broadsides, and various forms of envelope enclosures. Direct-mail advertising should be clearly distinguished from mail-order advertising. The first is primarily an attempt on the part of a store to send to a customer, through the mail, a message from the store that will bring her into the store to make a purchase. On the other hand, mail-order advertising attempts to do the entire selling job through advertisements and correspondence without the personal aid of a salesman.

The chief advantages of direct-mail advertising are its selectiveness and the fact that the advertisement sent as a piece of mail ordinarily has more chance of obtaining the customer's attention. It is used when a store wants to single out a special class of customers and make a direct appeal to them.

Both large and small stores can use direct-mail advertising to advantage[4] It can be effectively used to supplement newspaper advertising The newspaper advertisement of necessity broadcasts a general message, for it goes to a widespread general audience, whereas the direct-mail material takes a more personal message to selected customers. A neighborhood store may not be able to advertise profitably in the newspapers because of the waste circulation but may find direct-mail advertising very desirable and practical because it can be sent to the people in the store's neighborhood territory, with little waste circulation.

[1] Some interesting illustrative material can be found in Thomas J. Buckley, *The Science of Marketing by Mail*, The Business Book House, 1941.

[2] Direct-mail advertising is only one form of direct advertising

[3] For an example of two effective letters, see Frank Egner and L. Rohe Walter, *Direct Mail Advertising and Selling*, pp. 177–179, Harper & Brothers, 1940

[4] HUMMMEL, O. LEE, "Direct Mail Results Grow like a Snowball," *Retail Management*, Sept. 15, 1940, p. 18.

Some small-town stores have built up trade over a wide territory by advertising through the mail. For example, one store, which in a town of 918 inhabitants is said to have done a business of over $900,000 in a single year, employs a young girl in each section of its trading area to report trade prospects. This trade scout sends in each month lists of possible customers who have moved into her territory during the month, new addresses of those who have moved out of the territory, and the names of those who are erecting new buildings or engaging in other activities that make them sales prospects. Upon receipt of this information the store sends out direct-mail-advertising material to call to the prospect's attention the items in which it believes he or she will be interested

Direct-mail advertising is one of the most expensive forms of advertising for retail stores In order to justify its high first cost in relation to newspaper and other forms of advertising, direct-mail advertising must result in much greater returns than would be received from the other forms of advertising The profitable use of direct-mail advertising depends very largely upon two factors: (1) a properly classified and accurate up-to-date mailing list; (2) the use of direct-mail material that is attractive in appearance and convincing in appeal. Both these requirements necessitate much care and effort on the part of the store The work involved in meeting the second requirement varies according to the particular form or forms of direct-mail material used and so will not be discussed at this point.[1]

The obtaining or building up of an accurate, up-to-date, properly classified list of customers or potential customers to whom to send the direct-mail material is of basic importance in the success of this form of advertising. A store may buy its mailing lists from concerns that make a business of compiling such lists; it is more likely, however, to develop and maintain its own lists.

As a merchant builds a particular mailing list, he must think of all the sources from which he can get names and then must check these carefully in order to remove duplicates and to correct errors. Names may be obtained from a great number of sources, such as directories, school lists, club and lodge lists, mail routes,

[1] For a discussion of the physical preparation of direct-mail material, see books on direct-mail advertising

office and factory pay rolls, and music clubs.[1] A ready-made list is found in the names of charge customers of the store. To such a list would be sent announcements of general interest. It may be desirable to classify the charge list into various groups, because the better the names are classified and subclassified the easier it is to send direct-mail material only to those likely to be interested. The charge list may be classified according to: (1) buying practices of the customers; (2) financial status or buying power; (3) length of time since a purchase has been made; (4) geographical location; (5) sex; (6) age.[2]

The following are some of the more common classifications into which the names secured from the store's records or other sources may be divided:

Charge customers' list
Men's list
Women's list
Girls' list
Boys' list
University list
Mothers' list
Club members' list
Car owners' list

In such a classification a person may be placed in a number of different groups because of his different interests. When material is sent out, it can be confined to those who will be interested in that particular offering, and the large waste circulation that a newspaper advertisement would have can thus be avoided. For example, an announcement of a sale of children's clothing will be sent to those names on the mothers' list. Most of these potential customers will find such an announcement of interest, whereas only a small percentage of those who would see a newspaper advertisement would have any interest in it.

An interesting example of a mailing list arranged chronologically is found in a store in Buffalo, New York. At the beginning of the month in which this plan, which aims at suggestive selling through direct-mail contacts, was put in effect, all charge-account customers of the store received, along with their statements, a blank form on which they were asked to list birthday and anniversary dates of friends and close relatives. This

[1] A store in Cincinnati secures mailing lists for its children's departments by obtaining birth lists from the city hall and checking these lists for desirable residential locations.

[2] WINGATE, JOHN W., *Manual of Retail Terms*, pp. 276–277, Prentice-Hall, Inc., 1931.

information was then tabulated chronologically throughout the year by the store. Reminders are sent to customers a week to 10 days in advance of the birthday or anniversary date, and together with each reminder the customer receives helpful suggestions as to suitable gifts. This service is being operated as a part of the activities of the personal-shopping bureau of the store

A mailing list is not a static thing but instead is continually changing in many ways; this means that it can never be said that a list is complete and perfect. Death removes a name from the list, or a change of address means a correction of the list. People's buying habits change so that they must be taken off some lists and put on others. Because of these changes and many others the mailing lists must be constantly corrected and kept up to date if the store is to get the greatest possible returns from its direct-mail efforts.

Radio Advertising.—Radio advertising is being used by a number of stores as one means of making contact with the store's possible customers. This form of advertising is used by many different types of store, varying all the way from the large city department store to the small-town store. What a store has to offer in the way of service and merchandise is of interest to its customers. The results to be obtained from presenting the message to the customers depend to a considerable extent upon the method of presentation. In radio advertising, just as in newspaper or any other form of advertising, the store must take the customer's viewpoint and try to tell her the things that she would be interested in hearing.

When radio advertising comes at the same time on the same days each week, people may develop the habit of tuning in then for the store's message. If the same person presents the message and follows the same style of presentation, people quickly recognize it as the voice of the store. Some stores have the store's announcer introduce the different buyers who speak for their own merchandise. This adds a personal touch to the message that is usually effective. The listener hears Mr. Walter Robbins, the buyer, speaking directly to her and telling her of the merchandise he has in his department for her.

Other stores feel it is not desirable to make a direct sales appeal and so broadcast concerts, lectures, and other forms of enter-

tainment under the store name. This is good-will advertising and serves as a continual reminder to the customer of the store's name. One department store built up its toy sales by the bedtime stories broadcast to the children They wanted to come into the store that was sending them these stories each day.

Some stores have installed internal-broadcasting systems, one use of which is to make announcements to the public within the store. One retail executive, speaking of the selling power of the radiobroadcasting system in their store, says, . . . "Nearly 1,000 pounds of candied orange slices were sold within a period of four hours, this item not having been advertised previously in any way, shape, or form"

Miscellaneous Mediums—Under this heading may be grouped all other forms of advertising used by retail stores. Some of the more important of these forms will be discussed briefly.

Outdoor advertising. Outdoor advertising is used by some stores as a means of general publicity. Such advertising includes painted walls, posters, billboards, highway signs, and electrical signs Because these forms cannot be changed daily as is a newspaper advertisement, they are used, not to tell of specific merchandise on sale, but rather as reminders to the public of the store and its services In this way, they build up good will for the store and add to its prestige.

Shopping news. A form of retail advertising that has caused much discussion in both retail store and newspaper circles during the past few years is "shopping news," known to the trade as "shoppers." A "shopping news" is a compilation of retail-store advertisements, issued in newspaper format and distributed free by the merchants of a city to their customers. There are merchant-owned or controlled shopping-news publications in several of the larger cities; in addition, there are other shopping-news publications that are either independently owned or are controlled by newspapers In several large cities, merchant-owned shopping-news publications are important advertising mediums, ordinarily being used as a supplement to newspaper advertising. Although there have been some instances in which advertising in shopping-news publications has supplanted newspaper advertising for a time, its real value ordinarily lies in its use as a supplement to rather than as a substitute for newspaper advertising. In general, merchants consider these shopping-

news publications as satisfactory and as an economical means of reaching their markets [1]

Other methods. Many merchants use car-card advertising, which presents the advertising message by means of cards placed in streetcars, subway and elevated trains, and busses. Car cards often are effectively used for advertising low-priced products for which a large number of the riders are prospects The advertisements present the articles to the customer when she is on her way to shop. In some cases the car-card advertising is used largely to summarize and recall to the customer's attention the story of the store's newspaper advertising

Magazine advertising is used to some extent by large retail stores of national reputation located in large cities, by chain-store organizations, and by mail-order houses with national distribution Quite clearly, magazine advertising is impracticable for most retail stores. A number of stores issue magazines that combine articles of general interest with descriptions of merchandise to be found in the store. *Fashions of the Hour* from Marshall Field and Company is one of the better known store magazines If these store magazines are sent out by mail, they are a special form of direct-mail advertising Smaller stores can buy magazines from companies that specialize in this work; these purchased magazines are published under the store's name.

The classified telephone directory seems to be receiving more and more consideration by many retailers as a desirable advertising medium.

When packages are wrapped for delivery, some advertising material may be included The enclosure may be an announcement of the spring opening, a pamphlet supplied by the manufacturer describing an electric washer, or some other advertising material that the store thinks may prove of interest to the customer.

Gift novelties bearing the name of the store are used by some retailers. These include such things as pencils, rulers, matches, calendars, and other articles of low unit cost that will be used frequently by the customer. The chief purpose of such gift novelties is to develop good will for the store.

Stunt advertising has been used by some retailers to attract attention to their store. A store may have an airplane write

[1] "United Shoppers," *Business Week*, Nov. 30, 1940, p. 24.

the name of the store in smoke across the sky at a fair or other outdoor gathering The value of stunt advertising is questioned by many advertisers; certainly it can be said that its chief attraction is its novelty, and therefore it is not likely to have any permanent place in a store's advertising.

In addition to the miscellaneous mediums that have been mentioned, many stores work out special methods of presenting advertising messages. For example, in a store in California, the space over the elevators on the street floor is used to do an effective bit of inside advertising for the departments on the mezzanine, second, and third floors. Each major department on these floors is represented by an attractive small poster of dark-brown cane board with lettering and appropriate illustrative figures in harmonizing colors. A hardware dealer in a Southwestern city put advertising on the paper bags used by the adjoining grocery store. He paid for printing the grocer's name, address, and telephone number on the sacks in return for the privilege of putting his own on the reverse side In one large department store, even the routine operation of handing change to customers is now used as a means of advertising. All currency notes are placed in transparent envelopes of the proper size to take them flat, and a brief sales message is printed on the face of the envelope Usually the message deals with forthcoming bargain offers and special events in the store.

Choosing Merchandise to Advertise.—The most important thing in a store is the merchandise. The best location, the best sales force, the best advertising, and the best window display in the world will not make the store a permanent success unless its merchandise is right In their advertising program, some merchants forget this basic importance of the merchandise and as a result think too much about *how* to advertise and not enough about *what* to advertise. Not all merchandise is equally desirable from an advertising viewpoint. A large part of the waste in retail advertising arises out of the poor choice of items to be stressed in the advertising.

Before an article is advertised, it should pass three tests: (1) It should have news value.[1] (2) There should be a sufficient

[1] "News" is here used in the broad sense of any information about a thing before unknown.

quantity in stock. (3) There should be a probability of increasing the sales by this advertising.

The fact that merchandise has just been received in stock is an item of interest to many people. When it is made of new material or in a different way, that fact is of interest. Merchandise sold at a lower than normal price always is welcome news. If an article represents a new style, that is a news item which will interest a great many people. Before merchandise is selected for advertising, it should be analyzed for points of interest to the customer, that is, for selling points or advertising appeals. If it has some points of real interest to the customer, it has passed the first test.

An advertisement costs money. The merchant expects the sales of an article to pay for the cost of its advertising. When advertising an item of merchandise, the merchant must be sure there is a sufficient amount in stock to make it worth while to advertise. If there is not, the resulting sales will not justify the advertising expenditure. When the demand created by an advertisement cannot be filled by the stock on hand, there will be dissatisfied customers, with a resulting loss of store good will. It is the rule in some stores that merchandise in sufficient quantity must be in stock before it can be advertised; thus, there is no chance that customers will be disappointed because of non-delivery

The third test is the possibility of increasing sales volume by advertising the merchandise. The demand for some articles is much more elastic than it is for others. For example, probably no amount of advertising would increase appreciably the sale of pins because the demand is comparatively inelastic. The merchant must judge the probability of increasing the existing demand for the article, for otherwise the advertisement may accomplish little or nothing.

Some stores will advertise only that merchandise which gives evidence of quick movement. By checking with piece-control records the slow-moving items can be detected and their advertising checked. One advertising executive has stated that the proper policy is to push the fast-selling items with advertising and to use personal salesmanship to stimulate the slow-moving items. The featuring of fast-selling items that have great intrinsic value will speed up sales, will strengthen the reputation of the store

as the home of values, and will help the store to combat successfully vigorous competition Frequently, stores make the mistake of stressing in their advertising a price line that is far from being the one most in demand. For example, in one store the average sale in gas ranges is at $64, but the advertising has stressed prices of $39 to $49. In another store the best selling washer is priced at $80, but the firm advertises one at $49

Advertising Appeals.—What is there about an article of merchandise that will make people want it? For the average article of merchandise, there are any number of appeals that can be used to make people desire that merchandise The appeal may be one of style, quality, durability, price, exclusiveness, or many others

The style appeal is a valuable one, for it builds prestige for the store that uses it. Although it is now evident in a great many fields, it is especially powerful with respect to women's apparel. A woman desires to be dressed in the prevailing style and at the same time wishes to be individualistic. There are so many elements that enter into style and they are changing so continually that it is not easy to know the present vogue. As a result the customer is interested in all style news, for it will give her the information she needs.

Quality is another constructive appeal. A shirt has strongly sewn seams and buttons. A piece of cloth has a fine weave, a soft finish, and a silky sheen. A shoe is comfortable and of specially tanned leather. A store that can build up a belief in the quality of its merchandise is acquiring a clientele that will purchase steadily from that store. As has so well been said, "The recollection of quality remains long after the price is forgotten."

The price appeal is one that is of interest to almost all people. No matter how much style and quality are desired in an article, the matter of price may prevent the purchase. So the question continually arises, "How much does it cost?" The advertisements of almost all stores carry a statement of the price, for that is a news item which the people want.

When merchandise is being offered at an unusually low price, it is not sufficient to tell the public of this fact. A reason for the low price must be given, for otherwise the public will be suspicious of the offering. A low price may be the result of a bargain purchase from the manufacturer; it may be because of the large

volume purchased by the store; it may be to clear out some seasonable merchandise. When the public is told the reason, the low price seems more plausible and no suspicion with respect to the offering arises.

The institutional appeal is frequently used It does not tell of any specific merchandise but centers the appeal in the store itself, its history, its services, and its ideals The object of such an appeal is to build confidence in the store and its merchandise. A store with such a history, rendering such services and having such ideals, is worthy of confidence, is the thought of such an appeal. At times, a part of the advertisement is institutional in nature and the remainder advertises specific merchandise. Institutional advertising may be used to influence customers' attitudes R. H. Macy & Co did an excellent job of this kind in convincing its customers of its low prices, its cash policy, and its product testing Marshall Field and Company, especially during seasonal promotions, also has done fine institutional advertising.

The advertising appeal frequently is built around some special event or period of interest to certain customers. Because large groups of people will have common interests toward which the advertiser can direct his appeal. In September the opening of school supplies an event of common interest to a large group. In June, there are graduations and weddings. In the spring, many people are interested in gardening July starts the vacation season. If the advertiser presents merchandise associated with these events, he has at once the interest of the group concerned.

As nearly as possible the advertisement should feature as selling appeals the same quality or qualities that the consumers stress in the articles. In many instances, however, merchants forget this fact. For example, in a study made by a class in sales promotion at the New York University School of Retailing, it was found that, in the case of women's shoes, only 9 per cent of the women from whom statements were obtained stressed the quality of "fashion rightness," but 31 per cent of the shoe advertisements examined placed stress on that quality. On the other hand, for this same product (shoes), "physical comfort derived from the goods" was stressed by 43 per cent of the customers but was given special emphasis by only 15 per cent of the

advertisements examined. In the purchase of underwear, 28 per cent of the customers placed emphasis on the quality of the goods for ease in laundering, cleaning, etc., but the newspaper advertisements showed only 1 per cent emphasis on this point.[1] The factors of chief interest to the customer should be the central theme of the advertising and display.

Planning the Advertisement.—When the merchandise to be advertised has been selected, the buyer will write out a description of the merchandise, giving selling points and all necessary information. Most large stores have a regular form which the buyer uses for this purpose and which he must sign as his verification of the correctness of the information. The copy writers in the advertising office prepare the copy from this information sheet. When a buyer has special advertising ability, the information supplied by him may need little rewriting.

Where it is necessary to make an engraving of the article, a sample will be sent to the advertising department for that purpose. When the copy is written and the illustrations are decided on, a layout of the entire advertisement can be drafted. The layout of the advertisement together with the copy and any necessary instructions is sent to the newspaper to set up. Space can be left for the engravings when they are ready.

When the proof is ready, it is sent to the advertising office for correction. The proof is then cut into parts so that each buyer can be sent that which concerns his department. He must check this proof for the accuracy of all statements concerning the qualities, quantities, prices, and location of the merchandise advertised. The proof with all corrections is then returned to the newspaper which is to make the necessary changes.

A small store may have one man do all the preparing of the advertisement. He should spend sufficient time and thought to make the advertisement as effective as possible. There is just as much need in the small store for a careful study of the merchandise to be advertised and for care in seeing that no error or misstatement occurs in the finished advertisement.

Because retail advertising appears day by day, it is usually prepared in great haste. The advertisement must reach the newspaper by a certain hour if it is to be inserted in a specified

[1] "The Consumer Talks Up on Advertising," *Retailing* (executive ed.), Jan. 30, 1933, p. 4.

issue. A great many people in the store contribute toward the preparation of the advertisement. This necessitates everyone's doing his part on schedule if the advertisement is to be ready for printing on time. Work may begin several days ahead of time so that the copy may be written, the illustrations completed, the layout ready, and the proofs corrected in sufficient time to enter the newspaper day by day. In the case of store-wide or departmental promotions, work may be started even weeks ahead of the event.

Copy —The written matter in an advertisement is spoken of as *copy*. It is of great importance; for, in the average advertisement, it tells the store's story and gives the customer the information she wants about the merchandise. The following rules for writing copy are found in *Better Retailing*, a booklet of The National Cash Register Company:

1. Know your subject.
2. Use short words
3. Write short sentences.
4. Make paragraphs short.
5. Use big ideas.
6. Put only one thought in each sentence
7. Write so that a child will understand it.
8. Say precisely what you mean.
9. Be brief.
10. Be logical
11. Tell the truth.
12. Never exaggerate.
13. Don't imitate.
14. Be enthusiastic.
15. Write to impress the reader, not to express yourself or impress a competitor.

The more knowledge of the merchandise a copy writer has, the better material he has to work with in writing his copy.[1] There is then less temptation to exaggerate, for he has sufficient facts on which to base his copy. If he tells the truth, the copy cannot be better than the merchandise and the reader will not be led to expect what the store does not offer

The merchant often makes the mistake of assuming that those who read his advertising know as much about his merchandise as he does himself. It is better to exaggerate the ignorance

[1] "Merchandise Facts Boost Success Ratio of Ads," *Women's Wear Daily*, Jan. 21, 1941, p. 31.

of the reader and then explain carefully. The more simply a thing is written, the more people will understand it. This requires short words and short sentences. Trying to express only one thought at a time promotes the simplicity and ease of comprehension.

To say precisely what one means is not easy for those copy writers who are vague in their ideas Such a person would have to write and rewrite his copy to get it to carry the meaning he wants it to have Being brief is difficult for some. This fault often comes from vagueness in thought Such a person, when writing copy, should work it over in an attempt to reduce the number of words necessary to tell the story.[1] His readers do not have the time or inclination to read useless words. If what is said does not seem logical, the reader will doubt the veracity of the advertisement.

Many copy writers fail because they try to imitate too closely what others have done. One can profit by the works of others and still have a style of one's own. Enthusiasm is contagious and if based on truth is a good quality. Truthful enthusiasm will build sales. Again we should remember that the copy must be written from the reader's viewpoint. It may be fine literature and it may fill the writer with pleasure; but if it does not influence the reader, it is worthless as advertising. The ordinary copy writer can profitably spend some time in the evenings meeting new people. He can get new ideas from them, especially with respect to what they think of stores, of merchandise, and of the ease of finding merchandise in the various stores. These ideas will help him write effective copy.

The copy must be fitted to the merchandise advertised and to the type of reader. What would be suitable for a grand piano would not be proper treatment for advertising a sport dress. Writing copy for men is different from writing copy for women. Many small-town merchants who must do their own advertising have studied the mail-order catalogues with profit. Catalogue descriptions usually give the maximum information in the minimum number of words.

In large stores, the copy writers are usually specialists in merchandise divided into classes upon the basis of the form of

[1] BUSHFIELD, GEORGE I., "Telegraphic Copy," *Printers' Ink*, Mar. 15, 1940, p 15.

appeal.[1] For example, in a large department store such specialization might be by the following classes:

1. Basement merchandise
2. Women's and misses' merchandise
3. Children's merchandise
4. Men's merchandise
5 Piece goods and house furnishings

Illustration—A Chinese proverb says, "One seeing is worth a hundred tellings" A picture will attract the attention quickly and tell its story at a glance Attracting attention, however, is not an end in itself; it is only a means to an end—the arousing of sufficient interest in the merchandise to lead to a sale. When an illustration shows the article itself, its package, the article in use, or the materials that go into the article, it not only attracts attention but arouses interest in that merchandise. An illustration should (1) attract attention, (2) arouse interest, and (3) lead to action

The illustration will enable people to visualize the merchandise better than would copy alone The copy will give information that the illustration cannot give and will corroborate the information that the illustration conveys. Stores that do not make engravings from the merchandise itself must use care to see that the mats supplied to it by the newspaper or a mat-service organization do not give a false impression of the merchandise being advertised. Good reproductions are especially important in fashion advertising.

If the illustration is to appear in a newspaper advertisement, as most of them do, the engraving must be adapted to newspaper reproduction. It also must harmonize with the other parts of the advertisement and with the quality of merchandise it represents. An illustration ordinarily does not try to show all details but eliminates the many unnecessary points. In this way, it brings out the features that carry the selling story, the things that the customer will want to know. Where all the detail is left in, the essential points may be missed by the one who sees the illustration. It is the work of the artist so to prepare the drawing that it will emphasize the important points.

[1] MAZUR, PAUL M., *Principles of Organization Applied to Modern Retailing*, p 114.

In some cases the illustration is used for its decorative or artistic effect. However, in most cases the store expects the illustration to sell specific merchandise rather than simply add to the appearance of the advertisement itself.

Borders and Type—A border is not essential in newspaper advertising, for the column lines serve the same purpose; however, many advertisements have a border The object is: (1) to center attention on the advertisement by separating it from its surroundings; (2) to lend an artistic effect. In practically all cases the border should be simple; otherwise, it centers attention on itself rather than on the body of the advertisement The border should harmonize in spirit with the rest of the advertisement. Where the copy and illustrations are in a light mood, a heavy, dignified border would be out of place Stock borders carried by the newspaper will be found in a variety of forms At times, it may be thought desirable to go to the extra expense of having a special border designed for an advertisement or for use in all the store's newspaper advertising

In the preparation of advertising by small stores, the choice of type usually is left to the newspaper because the merchant is not familiar with the different styles and sizes of type. The advertising department of a large store will include an expert on type who will supervise that phase of the preparation of an advertisement In other stores, someone should become familiar with the general differences in styles so that the type to be used can be chosen wisely from the standpoint of effective advertising. In general, the type must be easy to read and should harmonize with the other elements in the advertisement.

Layout.—The layout of an advertisement might be called a blueprint for the guidance of the newspaper. It shows where each piece of copy, illustration, headline, or other element of the advertisement is to go Its chief value to the store's advertising man himself is that it helps him to decide on the most effective manner of presenting his sales appeal. The importance of layout from the standpoint of the effectiveness of the advertisement is clearly shown in the following statement by Kenneth Dameron:[1]

[1] DAMERON, KENNETH, "Advertising Can Do Its Part by Effective Use of Space," *Retail Ledger*, April, 1933, p. 12

The layout of an advertisement determines to a large extent whether or not it will be read. . Most readers are not looking for particular advertisements, so layout must not only attract attention but sustain reader interest If a store has a dozen or more items to be advertised and all are of varying importance, how can they be stressed so that they will appear in the right order? What will be the initial impression of the reader? Is the advertisement arranged in such a way that the eye will follow through, or is it blocked before it has covered the advertisement? Does the advertisement strike a discordant note or is its arrangement so pleasing that it attracts the reader? The answer to all these questions is in layout.

If the layout is prepared on a standard layout sheet supplied by the newspaper, the layout itself can easily be drawn to the exact size of the finished advertisement A line representing the border will first be drawn in. The position to be occupied by the illustrations will be shown by sketching in the illustration, by pasting in a reproduction of the illustration, or by writing in the space a letter that also appears on the back of the mat or engraving. Headlines and subheads are usually lettered in, as are the prices. The space to be occupied by copy is shown by a series of equal parallel lines Each of these spaces will be given a number or letter The duplicate number or letter will appear on the typewritten sheets of copy opposite that unit of copy which is to go in the designated space As an added precaution the first two or three words of each paragraph or unit of copy may be written in the proper place in the layout. The sheets of copy will be attached to the layout and sent to the newspaper. Any instructions to the newspaper, such as those concerning type, can be put on the layout sheet or on the copy paper

By laying out the advertisement in this way a proper arrangement can be worked out to give the advertisement a pleasing appearance. This necessitates a balance between the different parts of the advertisement. Also, attention must be paid in arranging the advertisement to emphasizing those parts of the advertisement which seem the most important. It may take some study to work out an arrangement that will give both pleasing appearance and emphasis, but the finished product will justify the extra effort.

Enlisting Help of Sales Force.—The effectiveness of the store's advertising will be lessened if the sales force does not do its part

to cooperate. A customer may inquire of a salesperson concerning an article she has seen advertised. When the salesperson shows no evidence of having heard of that article, the customer's estimate of the value of the merchandise falls. On the other hand, if the salesperson says, "Yes, that is a special which the hosiery department is offering just for today. You will find it in front of the elevators," the customer is pleased because her shopping has been made easier The president of one large store sent out a letter to the store's better customers inviting them to come into the store for a special event. The cold attitude of the sales force did much to destroy the good will created by this letter.

The buyer of a department should show his sales force how they can be better salespeople and serve the store's customers better by having studied the advertising of the store In their study of the advertisements, they learn much about merchandise and also the location of departments offering the advertised merchandise In order to help the salespeople familiarize themselves with the store's advertising, the store may place each day on bulletin boards throughout the store a copy of that day's newspaper advertisement. One store had the plan of inserting a minor mistake or typographical error in each advertisement which its salespeople were to find. To do this, they had to study the advertisement. Other stores send a proof to each department which every salesperson is required to read and sign The comparison-shopping departments make it a point to inquire concerning articles mentioned in the advertisements If the salesperson is not familiar with them, this fact is entered on the salesperson's record in the personnel department and plays its part in promotions or in dismissals. The William F. Gable Company of Altoona, Pennsylvania, put on a contest among their salesmen to discover the extent of their knowledge of the store's advertising. The first one correctly answering each question received a new $1 bill.[1]

Advertising Standards.—If advertising is to be successful, it must lead the customer or prospective customer to have confidence in the store and its merchandise. When the advertising contains untruths or exaggerations, the customer will quickly

[1] "How Closely Do Staffs Study Own Store Ads?" *Women's Wear Daily*, Mar. 24, 1941, p. 25.

discover them and as a result will lose this confidence, which is the basis of the store's good will. Because of this danger, advertising men are paying more and more attention to truth in advertising and are striving to raise the standards of retail advertising as well as those of the other forms.

The Sales Promotion Division of the N.R.D G A. has developed a code of practice for the advertising of retail stores. This code states the need of "honesty, sincerity, and candor in advertising" and then enumerates specific ways in which these can be achieved. It cautions against overstatements and calls for simple, easily understood language, accurate and complete descriptions of qualities and quantities, and care in preventing misleading implications when the advertisement is read. Practically all large cities have "better-business" bureaus, whose object is to raise the standards of business and advertising One phase of their activities deals with retail stores and their advertising. The bureau serves as an impartial organization to check up on retail advertising. Where advertising is found to be dishonest or unethical, the bureau calls on the store to change its practices. Some of these undesirable practices are unintentional and when called to the store's attention are quickly remedied. In other cases the threat of publicity usually causes the store to eliminate its unethical practices. When necessary the bureau has even prosecuted stores to force them to correct their improper methods. Among the results of the work of the better-business bureau of one city in one year were the following: retraction of misleading furniture advertising; fake advertising-directory scheme exposed and the promoters indicted; fake jewelry and furniture auctions investigated with resulting arrests and convictions; necktie-shop proprietor arrested and convicted and conviction affirmed upon appeal, for advertising and selling men's rayon hose as silk.

Window Display.—The display of merchandise both in the windows and inside the store is one of the most important of the retail sales-promotional forces.[1] Some stores say that their window displays are even more important than their newspaper advertising A large department-store organization in Chicago made a test of the comparative pulling power of window dis-

[1] EDWARDS, C. M., JR , and WM. H. HOWARD, *Retail Advertising and Sales Promotion*, Chap. 18, Prentice-Hall, Inc , 1936.

plays, newspaper advertising, and radio advertising. The same item was featured at three different times, in the three different ways, and far enough apart to avoid conflict. The pulling power of the three forms was shown to be in the ratio of 265 to 215 to 200, with window displays first, newspaper advertising second, and radio advertising third The relative importance of these mediums will differ for different types of merchandise.

Most of the large department and chain stores have recognized the great importance of window display and are using the selling power of their windows Many stores, however, have failed to take full advantage of display in the selling of merchandise. Proper store display, both window and interior, has never been of greater importance than it is today Inability to show merchandise because of lack of display space or because of improper display has caused many markdowns.

Because window display is one phase of the selling campaign of the store, it must be governed by the policies of the store The type of goods sold and the class of customers to which the store is making its appeal affect the window display just as they affect the advertising of the store. Both window and interior displays must be fitted into the general plan of department or store-wide promotions

Like advertising, the window display needs the cooperation of the sales force. The window may bring people into the store, some of whom are already convinced that they should buy the merchandise displayed but a large percentage of whom need salesmanship to finish the sale In a small store with few windows and few salespeople, it is easy to be sure that the salespeople know what is in the windows. Larger stores frequently post on their bulletin boards a statement of what is in each window Others send this information to the buyer so that he can inform his sales force Not only should the window display and personal salesmanship of the store be correlated, but in addition the window-display efforts should be related to the advertising of the store. In this connection the display manager of one store writing in the *Retail Ledger* says, "When new, high style merchandise is advertised in the newspapers we get an immediate response When it is featured exclusively in window displays we also get good response. But when these two mediums are effectively harnessed together to do the same job, the

response is four times that of either medium alone" In another store the window displays are decided by the display director, the advertising manager, and the stylist so that the displays will be well integrated with the promotional plan of the store.

A window display is expected to do the same things as an advertisement It must (1) attract attention, (2) arouse interest, (3) build this into such desire that it (4) will lead to action, which in this case means that the prospect will enter the store.

The "window circulation" is the number of people passing by who can see the display. The location of the store determines the window circulation The importance of the windows is shown by the large percentage of the building rent that is allocated to the space used by the windows. Because this space is so valuable, great care should be used to get the greatest results possible for the store from the window circulation. In many cases the store profitably can make frequent window counts in order to check the effect of their displays upon the passers-by. A survey of the windows of a number of stores in Pittsburgh, conducted by Professor Gordon Grant of the University of Pittsburgh Research Bureau for Retail Training, brought out the following interesting points:[1]

> Persons passing store windows stop to look at one out of every nine; twice as many women as men stop to look at windows; night traffic is one-third of day traffic but the percentage who stop to look at windows at night is 10 per cent greater than during the day; there is no outstanding day for windows, about the same number of people being interested in them every day of the week; small intimate windows get more attention than large ones; prestige windows apparently get little attention, more frequent window counts are needed to determine their value as a sales-promotion medium

The Display Idea.—The first step in building a window display is to conceive the idea or general plan of the display Previously the right to use the window has been allotted to the department by a schedule that tries to fit in with the sales-promotional plans of the store and to give as many departments as possible the use of the windows. The plan should be developed some

[1] "Are Your Windows Stopping Enough Potential Buyers?" *Retailing* (executive ed.), Oct. 17, 1932, p. 9.

time before the date of the display in order to have all details completed on time. Also, by planning ahead the use of the windows, a definite relationship between the windows can be planned, provided that such a tie-up between the windows is desirable. The display must make the potential customer "see dreams being fulfilled and ambitions being realized" Then she will want to buy.

In planning the display idea, it should be kept in mind that the purpose of the display is to sell merchandise and create friends for the store. A display that is an artistic success but does not sell merchandise or help build good will is a failure. "Art for art's sake" may be all right in some places; but, in a window display, art must be for the sake of sales

The theme of the window may be centered in an event. The Christmas season is an event that offers many opportunities for window displays. The merchandise displayed and the decorations in the window should carry forward the Christmas idea. The approach of cold weather centers people's attention on their need for a large variety of articles and offers the idea for the display of all this merchandise The beginning of school, Commencement time, June brides, vacation time—all offer themes for window display. The theme may center in a special sales event such as "dollar" day, an anniversary sale, or the spring opening. The sales-promotional calendar will show a large number of special events that may be used as the central idea of a window display

The second type of window display is that for the regular sale of merchandise Each day the windows must tell the story of the store and display the merchandise that is for sale within

Preparing the Window—Getting the window ready for the display involves the considering of three points: (1) cleanliness; (2) backgrounds; (3) floors Whether the store is a large one with a separate window-display department or a small one whose proprietor must decorate the windows himself, these points are of real importance.

Absolute cleanliness is essential if the window is to have a pleasing appearance. This means cleaning the window glass both inside and out before the display is put in the window. Because dust, soot, and flyspecks quickly accumulate, it pays to repeat this cleaning each morning Stores in some cities

find it necessary to clean the glass even more frequently The floor of the window should be thoroughly cleaned, and polished if of wood, before the display is built and should be dusted whenever necessary The same care should be given the background. After the display is built, the merchandise and window fixtures must be kept clean

Some windows are open at the back so that the interior of the store as well as the merchandise in the window can be seen by passers-by However, the average window has a background Closing a window in this way has two advantages. (1) It centers attention on the interior of the window (2) It helps to keep dust and dirt out of the window.

Backgrounds are of three types: (1) permanent, (2) semipermanent; (3) temporary. A permanent background is of wood, composition, or mirrors. It should be so planned that it will assist in displaying the merchandise placed in front of it A simple background is usually better, for it does not attract attention away from the merchandise. A neutral shade will permit the display of both light- and dark-colored merchandise A mirror background has the advantage of showing the back of the merchandise as well as the front. It is used for this purpose by some women's ready-to-wear shops. It also gives an impression that the window is on a larger scale than it really is. However, the attention given by the customer to her image in the mirror background often leads her to overlook or ignore merchandise in the window. Because of this feminine trait many stores have eliminated mirror backgrounds.

A semipermanent background is one that is built for a period of time, such a season, but that will be replaced at the end of that time.

Temporary backgrounds permit greater flexibility of treatment They can be changed to fit the theme of each display Such backgrounds may be made of composition board which can be treated to resemble almost any material, paper, draped cloth, or some merchandise such as rugs. The color can be adjusted to fit the merchandise. Elaborate scenic effects can be painted on temporary backgrounds to give atmosphere to the merchandise displayed. If these temporary backgrounds can be used more than once or can be redesigned for further use, it will mean a considerable saving in this expense item.

Floors are of different materials Hardwoods, composition boards, pattern linoleums, tile, and carpet are the most common flooring materials. The floor, like the background, must furnish atmosphere or center attention on the merchandise itself

Arranging the Merchandise.—The amount of merchandise to be included in a window varies with the type of window. For the average window, simplicity should be the rule and overcrowding should be guarded against. It is easier to center attention on a few items As the number and variety increase, the passer-by is confused and unable to get the store's message. Especially should the store that is building a reputation for style and quality stress simplicity in arrangement

Stores that make a price appeal or sell articles of small size and unit value frequently use a mass-appeal window In such a window, large quantities of merchandise may be shown—many units of the same article or a number of groups of related articles. In this type of window, as in any other, if there are many unrelated articles, none of them will command attention unless ingenious ways of showing quantities of merchandise are worked out.

Every window should have a focal point or center of attention. This is the feature that carries the sales message most clearly. The rest of the window assists it to do so This center of attention may be an article of merchandise, a window card, or even a background in a window that is showing the services of the store rather than trying to make a sale of specific merchandise

There must be balance in the window if it is to be pleasing to the eye. Balance is of two types. bisymmetric and occult Bisymmetric balance is the placing of equal objects at equal distances from the center so that a line drawn vertically through the center will equally divide the weight. Weight may mean size, number of units, color, or depth Occult balance secures the balance by arrangement rather than by symmetry The weights on either side of the vertical line are unequal, but there is an effect of balance due to the arrangement of the various things making up the weight. Occult balance is less formal than bisymmetric balance.

The colors shown in the window must harmonize with each other. Clashing colors will destroy the effect of the window for the average person. To aid the natural sense of color harmony,

charts have been prepared to show how to combine colors, shades, and hues for pleasing effect.

The merchandise in the window must be so placed that it will be easy to see. If too low or too high, the article may not be seen. Ordinarily, the smaller articles in a window are near the front with the larger articles toward the back. With such a general arrangement, both can easily be seen from the front of the window. Each article should be placed so that the view of it is not obscured by another article and so that it does not hide any other merchandise in the window.

Practically every display will require some fixtures. These are for service and not for display, because the merchandise, not the fixtures, is for sale. The tendency is toward simplicity and serviceableness in fixtures A store that does not have a varied line can improvise boxes and boards and make many simple but effective fixtures of its own

The average window display calls for price cards, for the average person must consider price in making a purchase Such cards, however, should be of artistic appearance and not too large. In this way the price news is given, and yet price is not overemphasized. A store that has an exclusive atmosphere may feel that the price element is detrimental and so omit such cards. Other stores that normally use price cards may omit them in certain displays such as those for a spring opening where style is such a dominant factor. Others place a card near the merchandise giving information other than price about it, such as style news. Some large stores will place a card in the window telling what department carries this merchandise and where it is located in the store

Lighting—The proper lighting of a display window is an important factor. The attention value of a well-lighted window has been proved time and again. People are attracted by lights and like to walk past brilliantly lighted store fronts. Tests have shown that people not only prefer to walk where there is plenty of light but will also stop to look into the windows

The length of the working time of the windows is increased in this way. The windows are working for the store not only during the day but also during the evening hours. Many sales are started during this time. Well-lighted windows increase the good will of the store, for they are pleasing to the passers-by.

It is best to have the permanent lights in a window installed by one who is skilled at that work. There are three things to be remembered in making such an installation: (1) to have sufficient light; (2) to conceal the lights as far as possible; (3) to have no shadows in front of or on the merchandise.

Because different kinds of merchandise and different types of window require different lighting, the lighting should be carefully planned. When the lights are concealed, they cannot shine in a person's eyes Shadows in front of or on the merchandise make it harder to get a correct idea of what the merchandise is like

Colored lights and spotlights are frequently used in a window. These should be used with care, for certain colors in the light will change the color of some merchandise.

Duration of a Display —Displays should be changed frequently Seldom is a display worth keeping more than a week A change twice a week is even better. There are three reasons for a frequent change (1) The display has more news value. (2) There is less chance of damage to merchandise displayed (3) More departments are given a chance to use the windows.

A window, like a newspaper, quickly loses its news value If it has been seen before, it does not attract attention [1] When merchandise remains in a window any length of time, it is likely to become soiled and unfit to return to regular stock

A Southern store selling women's ready-to-wear merchandise on a cash basis has an interesting plan of using an ever-changing window-display program instead of newspaper advertising to draw customers. Four of the 10 windows in the store are changed daily, leaving 6 windows open at all times for a constantly changing series of displays of dresses, coats, millinery, underwear, shoes, and accessories. By using the store's windows for this type of "spot" advertising, the merchant has formed a habit in the minds of shoppers of making a point of examining the windows

Interior Display.[2]—The display of merchandise within the store has a threefold aim: (1) to give a pleasing general impression; (2) to help the salespeople make the regular sales; (3) to suggest additional sales. People like a pleasing interior just as

[1] One store dresses its windows during the daytime in order to attract the attention of the public.

[2] EDWARDS and HOWARD, *op. cit.*, Chap. 19.

they like an attractive window Where the interior is neat, well kept, and attractive in appearance, the customer gets a favorable impression upon entering the store. Women, especially, are influenced by an attractive store interior, and because women do such a large part of the shopping the merchant must try to please them.

Window displays may bring customers into the store, but much of the actual selling depends upon the interior display Many times, customers want the merchandise out of the windows because it looks so much better in the window than on the counter or in the case. Such a situation shows a weakness in store display; the two types, window and interior display, must be equal in effectiveness.

A well-designed interior display is a great help to the salespeople It answers many questions about the goods better than they could be answered by the salesperson; also, by watching the customer's reaction to various displays an intelligent salesperson frequently can more easily close the sale

Merchandise displayed throughout the store results in suggestive selling. When one is buying shirts, a display of neckties suggests to him the need of this additional article. Well-planned displays of related articles will add materially to the sales volume.

Interior display has an advantage over window display in that there is much more room to show merchandise. The entire selling interior of the store can be used to make an eye appeal to the customer. In this way, practically all lines can be making their appeals to the shopper.

Interior displays are governed by practically the same principles as window displays They, too, must be arranged attractively and kept in a neat condition. Frequent changes add to their news value.

For special occasions such as the Christmas season the interior will be decorated to fit the occasion. This adds to the store's power of attraction and helps give the atmosphere that the store hopes will lead to sales.

CHAPTER XIX

RETAIL SALESMANSHIP

Changing Attitude toward Salesmanship.—There has been a decided change in the attitude toward retail salesmanship in the last 75 years. This change has gone hand in hand with the changing concept of ethical standards in business. What was once the accepted and expected thing in retail selling would now be considered not only unethical but positively ruinous to the store that attempted it. The realization of this relation between old-fashioned salesmanship and loss of customers is no doubt the chief reason why a new salesmanship has come into existence.

At one time, *Caveat emptor* (Let the buyer beware) ruled the sales transaction of the store. This convention was based on the false assumption that a good sale is one in which the store gets the advantage of the customer. That is, the store sold the customer something she did not need, or in too large a quantity, or at too high a price, or deceived her concerning the quality of the merchandise. It was the customer's job to discover this before the sale was made; in fact, if she was not able to discover and so prevent such an action on the part of the store, she deserved to be cheated, according to these standards. As a result, every sale was a contest between the salesperson and the customer to see which could get the advantage of the other. Each was attempting to cheat the other. After the sale was finally made, the matter was ended. If later the customer discovered the merchandise did not measure up to what the store had said about it, there was no use in taking the matter up with the store. The store would tell her "A bargain is a bargain" and "There is no use in crying over spilled milk."

John Wanamaker is given the credit for being one of the first merchants who were shrewd enough to see that such salesmanship is poor policy on the part of the store, for the very nature of such selling brings the store and its customer into combat with each other. Mr. Wanamaker adopted the revolutionary practice of

printing the actual retail price on the goods where all could see and understand. He also instructed his sales force to represent the goods as they actually were and said that, if a customer was dissatisfied with the merchandise, she could return it and get her money back. His competitors prophesied that such a policy would ruin him Instead, we find that it was the beginning of a new era in retailing.

Today *Caveat emptor* has given way to a policy of customer satisfaction The salesperson is trying to serve the customer,[1] to give her the merchandise that will best fill her needs, to see that she gets value for her money. The old combat has given way to a better relationship. Instead of trying to cheat the customer, the salesman is trying to help her buy merchandise that will best satisfy her needs With this change on the part of the salesman, there has come about a corresponding change in the attitude of the customer toward the salesman She now has confidence in what he says and in the merchandise he is displaying Such confidence can be maintained only as the customer continues to receive satisfaction in her dealings with the store's sales force

This confidence is of great value to the store and should be carefully guarded. It makes selling easier and quicker. The Rotary motto "He profits most who serves best" should be the motto of every salesperson.

Importance of Retail Selling.—It has frequently been said that the retail store is the neck of the bottle of distribution. When it does not function properly, all the rest of distribution is blocked. If this is true, then the retail salesperson becomes of supreme importance to successful and efficient distribution, because it is through him that the retail store has its contact with the ultimate consumer. In few lines of business is the human element so important as in retailing, for here very little reliance is placed in mechanical power. The importance of human power in retailing is shown by the fact that the pay roll is the store's largest expense item.

Salesmanship is one of the biggest problems of a retail store. This has been true in the past and will no doubt be true in the

[1] The new employee at Gimbel's is told, "Just remember, the only real 'boss' in this store is the customer, who believes that Gimbel's is first in Philadelphia, and it is up to us to see that this reputation is maintained."

future. Goods "well bought" must be well sold. To a great extent the sales force is responsible for the success or failure of a store.[1] It is the salesperson who comes in personal contact with the customer He is the host who receives the store's guests The store gets the praise if his service is good and is blamed if his service is bad. A poor attitude on the part of the sales force can destroy the good work of the buyers and all the unseen forces of the store that have brought the merchandise to the salesperson's hands. Likewise, a proper attitude on the part of the salespeople will be the crowning factor in the attempt of the store to serve its customers.

Because the salespeople are the part of the store's personnel that the customer sees, it is not surprising that she judges the store by them For this reason alone the store must pay the greatest attention to securing the right type of salespersons, giving them the best of training, and seeing that they are continually inspired to consider themselves the store's ambassadors in all dealings with the consuming public. One of the best ways to increase the number of customers is to lose fewer of them The salesperson can play his or her part in this respect by serving customers in such a way that they will continue to desire to trade in that store.

The largest single item in a store's expense budget is the cost of personal salesmanship. This is another reason for the importance of retail salesmanship. If selling can be made more efficient, this item can be reduced as a percentage of sales. In respect to salesmanship as an expense item, then, a merchant should study retail salesmanship in an attempt to make it more efficient. He should try to increase the amount of the average sale, to increase the sales volume of each individual salesperson, and to utilize fully the time of the sales force.

[1] Speaking of the importance of the retail salesperson, Louis E. Kirstein, Vice-president, Filene's, Boston, says, "He or she:

"Can make your store a good one or a poor one, in the eyes of the customer.

"Can supplement or almost entirely nullify the value of the millions you spend for advertising.

"Can affect the efficiency of your buying staff to a tremendous extent.

"Can lose your shirt for you on your better goods or can make your store headquarters for fine things . . "

"Worry Won't Cut Expenses," *Retailing* (executive ed.), May 15, 1933, p 2.

If a salesperson feels a real pleasure in retail selling, it is easier to build up a belief in its importance A salesperson should look on his position as a means of bringing happiness into the lives of others through helping them fully to satisfy their needs A child comes into the store to spend his gift money, a mother is trying to make her money cover the needs of her family; a man is wanting an outfit for a fishing trip; the young girl is purchasing some clothes for a trip South. Helping each of these people to spend money wisely in the attempt to select the merchandise that will best satisfy his needs should give the salesperson a real pleasure. If it does not, he is not of the best type and is missing one of the rewards of his position. Only as he gets a genuine pleasure out of his work is he in a position to do his best.

Three Factors in Selling.—Retail salesmanship is made up of three elements (1) the salesman himself; (2) his merchandise; (3) his customers Each of these will be studied separately A retail salesman should study his own problem under these same headings

In making such a study, one should start at home, the salesman himself comes first This involves a study of his appearance, his health, and his personality. It is essential that the salesman make a good impression on those with whom he comes in contact To do this, not only must he make a pleasing impression, but also he must inspire confidence

If he is to inspire confidence, he must have a knowledge of his merchandise. Then he will know the qualities possessed by the merchandise he is selling and thus can point them out As questions are raised, he will have at hand the information wanted and will not need to invent an answer.

He must know his customers if he is to be able to make and hold a clientele Different people take different attitudes and have different viewpoints in purchasing merchandise The salesperson should be able to see these differences and to adjust himself and the presentation of his merchandise to fit his differing customers Although these differences make retail selling more difficult, at the same time they prevent it from becoming monotonous The human factor is a variable one and makes each sale a little different from the others, thus, to deal with it successfully requires continual ingenuity on the part of the retail salesperson

The Salesman. *His General Appearance.—Although clothes do not make the man, yet they do proclaim him.* A salesman should

pay attention to his personal appearance because of the impression that it gives. "Clothes reflect personality whether we want them to or not." People naturally like to trade with an individual who is neat and clean in appearance. Fortunately, this does not necessitate expensive clothing. However, if a salesperson's money for clothes is limited, first attention should be given to business rather than to "party" clothes. The clothing should be of good quality and conservative in appearance No flashy or extreme-style clothing should be worn, for such clothes not only indicate poor taste on the part of the salesperson but also tend to center attention on the individual rather than on the merchandise. Because some people do not know what is businesslike in appearance, many stores have laid down regulations concerning dress, and others have provided for uniform clothing for the sales force.

Some salespeople have objected to such uniform dressing, feeling that in some way it is degrading. This is not the case, it should rather be considered a mark of distinction, just as nurses or soldiers look upon their uniforms as something that distinguishes them by setting them apart from the rest of the world. Because men are more inclined by nature or custom to dress conservatively, the dress regulations are generally for the saleswomen.

Having a pleasing personal appearance, then, necessitates appropriate clothing which must be kept clean and neat It also means that the shoes must be shined and neat. The hair must be combed and well kept. Special attention should be paid to the hands, for they handle the merchandise and so are called to the customer's attention They should be clean and have a well-kept appearance. No perfumery or hair tonic of a pronounced odor should be used by the salesperson.

Attention should be paid to personal appearance not only for the impression it makes upon others but also for the effect it has upon the salesperson himself. The knowledge that one is properly groomed is bound to give confidence to the salesman, for he knows that his personal appearance will not detract from his ability to serve the customer properly Clean hands, well-pressed clothes, shoes that shine, and well-combed hair help in giving a good first impression.

If a salesman is to do his best, he must be in good health. There are notable examples of people who, in spite of poor

health, have been successful; but these are the exceptions. The average person is under a distinct handicap if he does not have good health. He does not have the same amount of energy to throw into his work. He is also more likely to become irritable in his dealings with other people Because competition is keen and modern business calls for our best, the salesperson should guard his health so that he will be able to give his best efforts in his selling work.

The salesperson must not let his out-of-business hours incapacitate him for work. A proper amount of sleep, some physical exercise, regular eating of wholesome food and not too much of it are ways of guarding health. It is incorrect to assume that health is an accident. Right living will go a long way toward giving one the necessary health for the demands of business.

Correct carriage is not only an aid to health but an important factor in one's appearance. It keeps one's vital organs properly placed and so promotes the general health. It likewise gives to others the impression of good health. No matter what care is given the clothes, one's appearance cannot be good if the posture is poor. Holding one's head erect, the shoulders back, and the stomach in are habits that can be acquired

Essential Qualities of the Salesperson.[1]—There are nine qualities that a successful retail salesperson should possess:

1. Enthusiasm
2. Courtesy
3. Loyalty
4. Attentiveness
5. Dignity
6. Tact
7. Poise
8. Honesty
9. Imagination

At one time, enthusiasm was considered the chief prerequisite of successful selling. The fact that it has been abused has led many to question its value. If enthusiasm is artificial, it will not be convincing and so will defeat its aim. The shallowness of such enthusiasm is easily discovered by the customer. To be sincere, enthusiasm must be founded on knowledge of and confidence in the merchandise and the store that is offering it This requires study on the part of the salesperson. Genuine enthusiasm is contagious. If the salesperson can radiate such enthusiasm, he will find that his customers also tend to have a

[1] ROBINSON, O PRESTON, "Meet Forty Top-notch Salespeople," *Journal of Retailing*, February, 1941, p. 19.

growing interest in the merchandise. When the salesperson shows real enthusiasm for an article, the prospective customer sees it in a favorable light.

Courtesy is more than politeness. One can be polite without being courteous. Politeness can be a surface attitude, but true courtesy involves a sincere desire to see the other person's viewpoint and consideration for his feelings. In this way, courtesy develops tolerance and a willingness to appreciate the other person's ideas. If the salesperson is to serve the customer, he must be able to understand her viewpoint. When a customer sees that the salesperson is really courteous, she will usually respond with the same attitude, for courtesy tends to breed courtesy. Courtesy is an excellent companion for enthusiasm. At times, enthusiasm tends to lead to overaggressiveness on the part of the salesperson. Where this aggressiveness is accompanied by courtesy, it is effective; otherwise, such enthusiasm may seem overdone to some customers.

A salesperson must be loyal to the store of which he is a part. That means that he must do his part in upholding the ideals of the store and the organization that is built around those ideals. He should not "knock" the store, its policies, or any part of its organization before the customers or other people. The store personnel should consider itself as a family and should always be a unit when facing the general public. When a salesperson finds himself unable to maintain such a loyalty, he should leave the employment of the store. What has been said of loyalty does not mean that the store is above criticism. It does mean, however, that such criticism should go through the proper channels within the store. If the management of the store has the spirit of progress, it will welcome such criticism and give it consideration. A tactful presentation of criticism is likely to win consideration for the criticism and for the one who offers it.

Attentiveness is another essential characteristic. The salesperson's first duty is to serve his customers; nothing should be allowed to interfere with that duty. As soon as a customer enters the department, the salesperson should show a willingness to give this customer his complete attention. It is extremely annoying to a customer to enter a store or a department and find the salespeople busily engaged in conversation among themselves and reluctant to leave this in order to serve him. Between

customers the salesperson will be caring for his stock and seeing that it is in order. Desirable as this work is, it must be secondary to the serving of customers

Different customers call for a different expression of attentiveness It may be apparent that the customer does not wish the immediate services of a salesperson. In such a case, attentiveness means that the salesperson should keep himself in readiness to give his service when the customer indicates a desire for it In the effort to be attentive, care should be taken that the approach is not too abrupt. Attentiveness must be combined with tact.

A certain amount of dignity is desirable. Selling is a business proposition and should be conducted in a businesslike way Loud talking on the part of the salesperson is lacking in dignity and should be avoided

Tact is the most essential element in a salesperson Tact implies the ability to do and say the right thing at the right time This necessitates seeing things from the other person's viewpoint. In this way, it is possible to meet the situation and do what the circumstances require. Because tact smoothes over difficult situations, it is not so apparent as is the lack of tact. Lack of tact is frequently the result of thoughtlessness—a failure to foresee the consequences of one's words or actions. A self-centered person is likely to be tactless. To be tactful the salesman has to step out of himself and constantly view his own actions and words from the customer's angle.

Arguing with a customer is tactless; the salesperson who argues is opposing the customer rather than attempting to see the situation as she sees it. Even when the customer makes an incorrect statement about the merchandise, tact must be used in correcting her impression. A simple contradiction, correct though it is, will in most cases antagonize the customer and make the sale harder to close.

Poise is another characteristic that a salesperson must have.[1] To have poise, it is necessary to have self-control. The salesperson should be the leader in a sale. When he loses his poise, he loses his leadership. Annoying things may happen in the course of a sale, but through it all the salesperson must keep

[1] See DUNCANE, THORNTON, "Selecting the Sales Force," *Retail Ledger*, January, 1935, p. 12.

control of himself if he is to be master of the situation. A customer is more likely to have confidence in a salesman who always keeps his poise

Imagination in a salesperson lets him see how the customer can use the product, how it will satisfy her wants Many opportunities exist that the average person does not see because he lacks imagination to visualize their opportunities. Where the salesperson has imagination, he can build for the customer a picture of the satisfaction that will flow to the customer from ownership of these goods

Knowledge of Goods.—The average salesperson does not have the knowledge of his own goods that he should possess. A person has only to remember his own buying experiences to realize the truth of this statement. Or one can compare the description of merchandise given in a mail-order catalogue with the sales talk of an average salesman to see how lacking the latter is in real information concerning the merchandise

One reason for this unsatisfactory knowledge of merchandise is that the salesperson does not have a real interest in his work. If he had a genuine interest, he would be eager to learn all that he could about the merchandise he was selling. He would study the articles themselves, read everything that pertained to them, and listen to anyone who could give him information concerning the merchandise and its uses

After such information is secured, it tends to become an old story The salesperson is so familiar with it that he feels other people must know the same things. In this he is usually mistaken, for the customer seldom knows them. Even when a customer looks at an article, there are many interesting points that escape her attention. Therefore, the salesperson must not take for granted that the customer knows or sees what is in front of her.

The criticism is made sometimes that a salesperson has a very limited vocabulary—that everything is "fine" or "nice" or "pretty" At times it may be true that the salesperson does not know other words that he might use. In some cases, however, an apparently limited vocabulary is due to lack of knowledge of the merchandise. If the salesperson knew more about the merchandise, he would see qualities in it that he might mention in selling these goods. The salesperson can increase

his vocabulary by studying the store's advertising. As those who write the advertisements are careful to choose the right words and phrases to describe the merchandise, the salesperson can increase his vocabulary with vivid and unusual words that will impress the customer and help sell more merchandise. One store inaugurated a "word laboratory" to help improve the selling ability of the salespeople.

A customer has the right to expect expert advice from a store. When she makes a purchase in a shoe store, she can tell whether the shoe feels comfortable, whether its appearance pleases her, and whether she is willing to pay the price. For most other facts, she must rely on the store. For example, for information on the quality of the leather, whether it will scuff or crack easily, the quality of workmanship, and possible style trends,[1] she must of necessity rely very largely upon the store's judgment. If the salesperson is to give the customer expert advice on these matters, he first must acquire the necessary knowledge When the salesperson does not have adequate knowledge, the customer is likely to discover this fact and lose confidence in the store and its offerings

Through lack of knowledge the salesperson may misinform a customer concerning the merchandise Whether the customer discovers this at once or later after buying the goods, there will be a feeling on the part of the customer that the store through its salesperson was trying to deceive her and "put something over on her." No one wants to trade at the store that does not seem honest in its dealings. To protect the store's reputation, then, a salesperson should acquire a knowledge of the merchandise he is selling.

It is by really knowing his goods that a salesperson can teach his customers the use and care of merchandise. Some merchandise has only one use—a desk set, for instance. However, one set will be appropriate for a man, another for a woman. One set will go well on one kind of desk, and another will not Cretonne might be used for window curtains, bags, upholstering, table covers, and smocks, as well as for many other purposes. At times a customer knows the use but does not know what would be the appropriate thing to purchase for that use. When the

[1] WOLFE, GERALDINE, "Fashion Insurance," *Department Store Economist*, Nov 10, 1938, p. 1.

customer is purchasing a dresser scarf, the salesperson might suggest that it be made of cretonne similar to the hangings in the room

Means of Increasing Knowledge —When the salesperson realizes his need for knowledge of his merchandise, he must then plan ways of getting this information.[1] One method is studying the merchandise itself and observing the various points of the material, workmanship, finish, etc. A great many manufacturers publish material giving usable information concerning their merchandise. The buyer or educational department should help the salesperson get this material from the manufacturer The salesman of the manufacturer usually can be of assistance to the store's salespeople. The Armstrong Cork Company carried information about its merchandise to the retail stores by a traveling "sales clinic." Store managers and salespeople were gathered at a local hotel in each town for this short course[2] Books on the subject and trade magazines in the store's library or in the public libraries will also help a salesperson increase his store of knowledge Listening to the comments of customers will, at times, tell the salesperson of new uses for the product.

As a part of his knowledge of merchandise the salesperson should know his stock and its location When the salesperson apparently does not know whether he has the called-for article in stock or if he does not know where to look to find it, this uncertainty makes the customer lose confidence in his ability She will be inclined to doubt the statements that he later makes about his merchandise.

In his spare moments the salesperson can very profitably spend his time studying his merchandise so that he will know its qualities and become familiar with its location. Some one may raise the objection that much of the information gained will never be used by the salesperson Of this, no one can be certain, because no one knows what type of question the customer may ask. When the salesperson is prepared to give an immediate and logical answer, confidence is created within the salesperson himself, and the customer comes to have confidence in him and in his merchandise.

[1] See "'Merchandise Data' for Salespeople Asked," *Retailing* (executive ed.), Jan 21, 1935, p. 11.

[2] McClure, Barbara, "Sales Seminar," *Printers' Ink*, Nov. 1, 1940, p 13.

A salesperson's duties involve not only selling merchandise but also caring for that merchandise This work includes putting the merchandise in order after having shown it to customers as well as arranging it when it is first brought into stock As the salesperson is caring for his stock, he can at the same time be studying it and learning its selling points.

Selling Points of an Article.—Why does a person buy an article of merchandise? In order to satisfy a need is always the answer Then it is the salesman's job to study that merchandise to see what there is in it that gives this satisfaction, for these are the qualities that make it appeal to the customer. For one person, it is the exclusive style of the evening gown that makes it satisfy her want Durability is the thing that sells the mother on a pair of shoes for a child. Playing cards whose figures have modern faces appeal to another customer just because the cards are different; thus, she is willing to pay the price for this feature.

The average article has a number of qualities that cause it to give satisfaction As the salesperson acquires a knowledge of his merchandise, he will discover these qualities. Some of them are more apparent than others; some seem more important than others. What the important selling points are depends on the customer herself, because what seems the most important thing about an article to one person may have to take second place in some other person's opinion. It is for this reason that the salesperson must study all the various points or qualities that yield satisfaction rather than just the ones that seem important to him.

Some salespeople have considered it unnecessary to study an article for selling points because the customer can see the merchandise just as well as the salesperson and so can discover these qualities without help But this idea is a mistake. Customers do not always see the things at which they are looking. No matter how apparent the quality may seem to the salesperson, it is quite possible that the customer does not see it. The good sewing on a pair of shoes may be evident to the salesman at first glance, and yet the customer never notices it. One diamond may look like another until the salesman points out the bluish-white color of the stone The remarkable matching of the grain in the different pieces of wood in a table top may be the very thing that gives that table its unusual beauty, but the cus-

tomer may not realize this or see it until the salesperson calls it to her attention.

Instead of assuming that the customer sees all these qualities, it is better to assume the opposite. In doing this, however, tact is needed so that the ignorance of the customer is not emphasized. "Doesn't this remarkable matching of the grain in these different pieces of wood show real art on the part of the workman? Think of the great care he must have used to get such perfect matching It is just such skill in all phases of the manufacture of this table that makes it a thing of beauty and durability." In this way the salesperson calls the customer's attention to these selling points while seeming to let the customer discover them for herself. He apparently goes on the assumption that the customer has, of course, already noticed them.

When the salesperson knows the selling points of his merchandise, he can show the customer why one article bears a higher price than another Frequently the customer would be glad to buy the more expensive article if she could see a reason for the difference in price. When the added satisfaction can be seen, the price difference becomes of less importance. As has been said, a person buys an article to satisfy a need. When the customer is shown the extra qualities possessed by the higher priced merchandise, she can see how these qualities will give her a satisfaction that will recompense her for the extra expenditure Otherwise, it is only natural that she will buy the cheaper article Therefore, a store that wants its salespeople to push the higher priced merchandise must see that they are familiar with and present to the customer the extra qualities found in that merchandise.

"Sizing Up" Customers.—A store tries to make buying as easy and enjoyable as possible through wide aisles, adequate lighting, good elevator service, etc. All this will be lost effort if the selling is not good The salesperson should do his part to make buying easy and enjoyable by adapting himself to his customers To do this, he must "size up" his customer. This is something the average person does involuntarily; when he sees a person, he usually forms an opinion of him. The salesman, however, should do this consciously, should study the different types of customer and see how he can create conditions favorable for their buying This involves a study of human

nature and what different types of people like and dislike. A customer is not always of the same type every time she comes into the store. The usually calm, pleasant individual may be irritable today because she is not feeling well One who is ordinarily a critical purchaser may at times be just the opposite because her mind is occupied by what seems to her a more important matter. Therefore, each sale is a new problem and the sizing-up process must be used each time.

Ability to size up a customer comes partly through experience. By watching the customer's actions, expression, and appearance, the salesman can judge her characteristics Some people are quick in acting and in arriving at conclusions and want similar reactions on the part of the salesperson. If the salesman is slow, this type becomes impatient and displeased with his services. Therefore, the salesperson must be quick in serving the customer and must be able to present the qualities of his merchandise rapidly.

Other people are deliberate in manner and action and so want the salesperson to proceed slowly. They are willing to let him go into detail about the merchandise. They cannot be rushed into buying but must be given their time to think the matter to a conclusion.

Another type of customer is the one who seems unable to reach a conclusion. She seems "sold" on the product, seems to desire it, yet will not make the decision to buy. It is the salesperson's job to induce the customer to make the decision that she seems to wish to make. One means is to eliminate all but the article that the customer seems to want. With the other articles out of sight and the attention focused on one, some strong sales talk may bring the desired decision. A suggestion such as "Is this to be charged?" "Shall I have this sent?" or "I'll call the tailor now to take your measurements" may induce the customer to decide to purchase.

Some customers seldom speak when buying. They make it difficult to know what they are thinking about the merchandise, for the salesperson cannot get a clue from their remarks Something can be learned by watching the facial expressions. The amount of time the customer gives to each article may give an indication of her interest or lack of interest in the various articles being shown her. Asking the customer's opinion on certain

qualities or features of the merchandise may start her talking enough so that the salesperson gets an idea of what she likes or dislikes about the merchandise.

Other customers are of just the opposite type in that they are very talkative They desire to trade where the salespeople seem sympathetic and interested in what the customer is saying. With such a type the chief problem is to prevent the customer talking herself out of buying. When the conversation gets away from the merchandise, the salesperson must recenter the customer's attention on that merchandise as soon as possible. However, this must be done tactfully so that the customer does not realize that she is being guided. Although the salesperson should show a sympathetic interest in what the customer is telling, yet she must not let herself become so absorbed in it that she forgets she is selling merchandise.

Skeptical customers must be inspired with confidence in the store and its merchandise Such customers seem to feel that the salesperson is trying to cheat them in some way Wherever possible, the qualities of the merchandise should be demonstrated, for it is then easier for the customer to believe. In this way, certain statements of the salesperson can be proved. When the customer has faith in these, it will be easier for her to believe other statements. If there are printed data on the merchandise or if well-known people are using it or recommending it, these facts should be brought to the customer's attention. The fact that the use of testimonials has been much overdone in advertising has, however, lessened its value for this type of customer.

The knowing customer has the attitude that she knows more than the salesperson about the goods and so cannot be told anything By playing up to her vanity the salesperson will please the customer and make it easier for her to buy. Such a customer does not want to be in the wrong in any statement or opinion and yet usually is very positive in making statements and expressing opinions concerning the merchandise. Therefore the salesperson should not try to show her that she knows less about the goods than she thinks she does.

The customer who is "just looking" is a very frequent type. At times, she desires to be let alone to inspect the goods. In such cases the salesperson can be near at hand to give later

any help that may seem wanted. When the customer seems attracted by a certain article, the salesperson can supply information about that article without seeming to attempt to sell it to her Many sales result in this way. It is very important that the salesperson make this type of customer welcome.

In sizing up a customer, the salesperson should always remember that his object in doing this is to make it possible for him to serve her more adequately. If he has properly sized her up, he can then adjust his selling methods to her particular type. The salesperson should never let himself become antagonistic toward his customer. Some types may not be pleasant to deal with, but it is not the salesperson's job to reform them. To attempt to do so not only would waste time but would also result in many lost sales and displeased customers. Service is the salesperson's aim. Proper sizing up of customers permits the salesperson to render better service to each.

Some salespeople are inclined to take advantage of children or foreigners. This is poor policy, for it does not build confidence.[1] A salesperson or a store that gives to children and foreigners the same degree of service as it does to others better able to take care of themselves develops their lasting confidence and so makes not only immediate sales but lays the foundation for years to come.

One of the most promising fields in the retail store of today is the training of salespeople to get the customer's point of view and to be really interested in finding just the right article to please her.

Beginning the Sale.—First impressions are of importance and so frequently help make or lose a sale. For that reason the first few moments of sale should be studied carefully. The salesperson must give the customer the impression that he desires to be of service to her. His manner, his method of approach, his greeting, and his tone of voice should all join in showing the customer that he finds it a pleasure to serve her.

His manner should be pleasant and sincere. No one likes to trade with a "grouch." This is expressed in the Chinese proverb "He who keeps a store must have a smiling face." The smile, however, must not be a veneer. It must spring from a

[1] "Get 'Em While They're Young," *Women's Wear Daily*, Mar. 27, 1941, p. 39.

real desire to serve and from pleasure in that service. Everyone respects sincerity, and this promotes confidence in the possessor of that quality.

The salesman's method of approach can show his willingness to be of service. If he stands still and lets the customer walk to where he is standing, it implies a lack of interest in that customer Rather he should step toward the approaching customer. This movement should be eager and not reluctant. By such a move, he shows the customer that he is anxious to serve her

The greeting given the customer should be pleasant and courteous Good taste would call for a courteous greeting. Because some salespeople do not know what is in good taste, a store may have a standardized greeting such as "Good morning," "Good afternoon," or "May I be of service?" If the salesperson knows the customer's name, that should be added, for one appreciates being known and given that personalized attention. So "Good afternoon, Mrs. Johnson" is even better. One advantage of the small store is that the owner knows his customers and can call them by name. Although the large store cannot do this to the same extent, it can do a better job of customer greeting than many are doing at present. "Do you wish something?" is a salutation used by many salespeople. Some do not consider that a good form of greeting, for it can be assumed that the customer wants something or she would not be there. Adding "madam" or "sir" to the greeting when the customer's name is not known is in good taste. Using "Mrs.," "Mr.," or "lady," as, for example, "Good morning, Mr.," is not correct.

The tone of the voice conveys a meaning just as do the words used. It should be pleasing and easy to listen to An unpleasant tone of voice naturally discourages the customer's enthusiasm. The voice may be too loud, it may be coarse or harsh, it may be shrill, or it may be indistinct. A well-modulated voice is an asset to any salesman. Some are fortunate enough to possess such a voice, but others must train their voices to serve them and to convey the message and impression needed.

The salesperson must now learn the customer's wants. As a rule, when the salesperson greets the customer, she will reply by stating her needs. The statement, however, is frequently indefinite—"I want to look at a dress" or "What have you

got in pipes?" Immediately the salesperson is confronted with the questions as to the size, price, material, style, color, etc., desired by the customer. One way of getting the information would be to ask the customer; this, however, is seldom the best method. It would dismay anyone to face such a barrage of questions. When a salesperson bombards a customer with questions before showing her any merchandise, she is likely to think that he is too lazy or too uninterested to show any more merchandise than he has to, or else that he is unintelligent, or that he wants to get rid of her as soon as possible. These things may not be true of him, and he may only be trying to save the customer's time by finding out just what she wants; but he usually succeeds in getting nowhere and causes the customer to lose interest and patience.

In many cases the customer herself is not sure in her own mind exactly what she wants. When she has definite ideas, she is likely to state them without any urging A question concerning the price that the customer wishes to pay offends some customers Moreover, when the customer states a price, it limits the salesperson in his offerings. For the same reason, many salespeople do not like to ask questions concerning material, color, and style. When the customer has committed herself as to her desires, she is less likely to accept other things.

As soon as possible the customer should be shown some merchandise. Her remarks concerning these articles will answer many of the salesperson's questions. Placing the actual merchandise in front of the customer concentrates her attention on it and also makes her feel that the salesperson is rendering service. Stating some positive quality of the article when placing it in front of the customer helps to center attention and arouse interest.

In general, then, the salesperson should avoid asking questions before showing merchandise; but in some cases the salesperson can be more helpful if he asks a question first, provided that it is the right kind of question, one that helps both customer and salesperson. For example, when a customer asks for curtains, "For which room do you want the curtains?" Or when a customer asks for a toy for a boy, "How old is he?" Such questions enable the salesperson to give the customer the benefit of his knowledge and judgment. Usually, by showing merchan-

dise or by asking just one good question, the salesperson can find out just what the customer wants.

The Sales Talk.—It has been said that every sale goes through four stages[1]—attention, interest, desire, and action.[2] These stages exist in the mind of the buyer. The attention is attracted to some merchandise, interest is created, and then desire is aroused which eventually leads to action, that is, to the purchase. In a retail sale, there seem to be exceptions to this process. A person comes into the store, asks for a certain article, and buys it at once. In this case the first three stages have already been passed A window display may have led this customer to action. An impulsive customer in making a purchase may move so quickly from one stage to another that it is assumed she jumps from attention to action. However, all people move through these four stages. The difference lies in the speed of movement and in the fact that not all the stages necessarily take place in the store.

One thing that makes selling interesting is the fact that each sale differs from the others. It is this fact which makes the salesperson necessary. In cases where this is not true, an automatic machine can do the selling better and more efficiently than an individual. The sales talk must be adjusted to the different types of customer, to the way in which they pass through the selling stages, and to their reaction to different statements made.

The most important selling point should be mentioned early in the sales talk and stressed. It is up to the salesperson to judge in each case what will be the most important point in the

[1] Sears, Roebuck and Co. rates its retail salesmen in the following manner:

Approach to customer, 12 per cent
Getting customer's attention, 12 per cent
Arousing customer's interest, 10 per cent
Creating desire for the merchandise, 5 per cent
Inducing customer to decide, 10 per cent
Suggestive selling to customer, 12 per cent
Giving receipt, 10 per cent
Salesperson's appearance, 6 per cent
Compliance with store's system, 13 per cent
Closing of sale, 12 per cent

Women's Wear Daily, Feb. 25, 1941, p. 38.

[2] Some writers on salesmanship divide the sale into more than four stages or steps.

eyes of the customer, for this differs with different customers. To one customer, it may be price, to another wearing qualities, and to another style Frequently the customer in asking for an article shows what she considers important. "I should like to see an inexpensive steamer trunk." In this case, price is of importance.

Explaining the uses of an article almost always interests the customer, for it shows the ways in which an article can give satisfaction Nor can it be assumed that the customer understands these uses, for as a rule she does not. The salesperson's attitude should show not that he considers the customer ignorant of these facts but rather that he is recalling them to her attention. "This silverware will add a distinctive note to your table" helps the customer visualize the merchandise in use and so helps build desire.

The customer will show by her attention the articles in which she is interested If these have been wisely selected by the salesperson, they are ones that are suited to the customer's needs. The sales talk can then be concentrated on those which have the customer's interest.

Mentioning the price of an article is a problem to some salesmen. Some of them are afraid to tell the price for fear it will spoil the sale. One reason for this attitude arises from the belief that the customer has the same financial limitations as the salesperson. It is quite possible that price will not cause the customer to hesitate. In most cases, however, it is better to wait until the qualities of the merchandise have been explained before the price is introduced and then to bring it forward in a casual way.

How much should be said about an article depends upon the type of customer involved. A salesperson can spoil a sale by talking too much as well as by saying too little When the salesperson talks too little, the customer gets the impression that he is not desirous of serving her. If he has nothing to say for his merchandise, it might as well be sold by a machine. He should give whatever information is needed to advance the sale, but this does not require incessant talking. Having received the information, the customer may desire to think over what she has heard. In such a case, only a few remarks as the customer handles the merchandise may be necessary to lead her to action. Although it does not seem desirable to have retail

salespeople learn a stereotyped sales talk, it may be worth while to give them certain tested sales sentences. Experience may show that a certain sentence expresses best the sales idea and leads to the desired reaction. The average salesperson can improve his selling by studying these tested expressions and using them in his sales talk.

Answering Objections.—As a customer inspects the merchandise, she frequently raises objections. It is only natural that she would want to know the disadvantages as well as the advantages of an article. In some cases the objection raised is simply an excuse offered by the customer without any real foundation. In most cases, however, the objection is a real obstacle in the customer's mind and prevents a purchase unless it can be met by the salesperson. Sometimes the objection can easily be answered by showing the customer that her fears are unfounded.

One objection frequently heard is "The price is too high." This may show that the customer has not yet been thoroughly sold on the merits of an article. The salesperson has to place more emphasis on the qualities of the article that make it worth this price It is possible that the customer feels she cannot afford to pay so high a price. In such a case, she can be shown merchandise in a lower price line When these do not satisfy, she may be more willing to accept the higher priced article. At times the customer has no intention of buying and so raises this objection as an excuse to end the sale.

One method of meeting an objection is to answer the objection before the customer raises it. After the customer has stated an objection, it seems to be of greater importance to her and thus becomes more difficult to answer. The salesperson knows there are certain objections that commonly arise. He frequently can adjust his sales talk to smooth over these points so that they will never arise in the customer's mind. "The quality of leather used in this pair of shoes gives them a wearing quality that makes them not only keep their shape but last longer than a cheaper pair." Such a statement shows a reason for the higher price and so tends to prevent the customer feeling that "the shoes are too high-priced." A customer may not realize the difference between immediate and long-run economy unless the salesperson points it out to her and shows her how the article in question is really cheaper when its longer wear is considered.

Often, it is desirable to seem at first to agree with the customer's objection and then lead her round so that she becomes willingly convinced of its lack of foundation. "I realize, Mrs Sears, that this suit seems to be rather lightweight, especially when we compare it with the winter suit you are wearing. As you can see, it is of the same weight as a great many of these suits we are showing for our spring trade On a warm spring day, you will be thankful it is light and cool." In this way the salesperson does not seem to contradict the customer's statement, but instead shows her that the point in question is an advantage rather than an objection. In meeting an objection the salesperson must never argue with the customer, for that arouses her antagonism. Tact must be used in changing the customer's attitude on the point in question

In some cases the objection is a valid one and so must be admitted The salesperson can show the customer the good qualities of the article and how these advantages are of greater importance It may be that the objectionable feature is not present in a more expensive article which can then be sold

Because certain objections are commonly raised, these should be studied and ways of meeting them thought out When this is done, the salesman always feels prepared to handle the problem. When he has a plan worked out for meeting any objection and uses tact in what he says and does, he will be able in almost all cases to dislodge the objection from the customer's mind so that the sale can proceed to a close.

Closing the Sale.—Action is the closing phase of a sale. Having cleared away the objections that would inhibit action and having built up desire by displaying and explaining the merchandise, the salesman now leads the customer to the point of actually purchasing the goods. In some sales, this is easily done, for the customer quickly makes up her mind that she desires the article and then buys it. Not all customers purchase so readily; a large percentage tend to procrastinate Some do this through habit, and others because the sale has not been well handled and they have not become thoroughly convinced that the article should be purchased.

The attention of a customer can be focused on an article by laying to one side all other articles, thus leaving only one in front of her. The sales talk can be concentrated on this article

and its qualities restated. Getting the customer to agree to the worth of these qualities may help her to decide. With some merchandise and with some customers, it may be desirable to concentrate on a small number of the articles rather than just one article

Knowing when to try to close a sale is an art that comes through experience. A customer naturally resents having a salesman try to get her to buy when she is not ready. There is also the possibility that she may be ready to purchase at one moment and then become fearful of making a decision the next.

Some salespeople, when they feel the customer is ready to take the article, show by their words that they assume she has purchased it. "Shall I have this sent out?" "How many yards do you desire?" "I am sure you will be pleased with your purchase." With such means as these, there is always the danger that the customer is not willing to be so influenced An experienced salesperson, however, frequently can help a customer make up her mind by such methods.

Although the salesman may help the customer to decide to purchase, this should be done so tactfully that she feels she is making the decision of her own accord. When a customer feels she is being hurried or unduly influenced, she not only resents it but is not likely to be satisfied with the purchase. The salesman always must remember that he is there to serve the customer This duty includes showing merchandise suited to the customer's needs, explaining the merchandise so that she will realize it can give her satisfaction, and helping her to make the decision to purchase the right goods. In all these phases of a sale, he should render expert advice and service.

Finally, whether the customer buys or not, she is entitled to a "Thank you." One chain store has this rule for salespeople, "The customer who doesn't get thanked gets cheated," and it is a rule that should hold good in all retail stores The "Thank you" should be said not in a singsong, mechanical way but in a genuinely sincere manner. The salesperson cannot make it sound real unless he actually means it

Suggestive Selling.—After an article has been sold, it is frequently easy to increase the amount of the sale either by selling the customer more than one of the article or by selling her a related article. Most salespeople could do much

more in the way of effective suggestive selling than they do at present.[1]

A customer has just decided to buy a French flannel shirt, and the salesman says, "I should suggest that you take three of these so that you may always have one freshly laundered and ready to wear." Such a statement will show the purchaser the limitations of having only one shirt of that type and can easily lead to a larger sale.

After having bought a shirt, the customer can be reminded of neckties. This should be done, not in the usual "would-you-be-interested-in-neckties" manner, but rather by some such transition as "We have some ties in the new stripe design that go especially well with a shirt of this type. I want you to see the two together so you can get the effect." By this suggestion the man is reminded of his need for neckties appropriate for the shirts he has just bought.

Another means of suggesting additional purchases is to call attention to any new goods that the store has received or to special values that it is offering "Here are some silk socks that are being offered at a special price just for today. A great many people are taking advantage of this special offering." "These gloves were received in the department only this week Our fashionist reports that this shade was being worn by a great many people at Palm Beach during the season there. You no doubt have noticed some being worn by the people who are returning now from their stay at Palm Beach." Such statements as these arouse new desires and lead to additional sales.

Suggestive selling offers the retail salesperson a real opportunity not only to serve his customers but also to increase his individual sales volume. The customer upon whom he is waiting is in the buying mood, having just made a purchase; thus, she is susceptible to a suggestion to see other things Suggestive selling requires both tact and judgment on the part of the salesperson—judgment in deciding whether the customer will appreciate such a suggestion and in deciding what to suggest,[2] and

[1] "She Didn't Know What She Wanted—Salesperson Did," *Women's Wear Daily*, Apr. 8, 1941, p. 12.

[2] *Domestic Commerce* reports that small tags tacked on the shelf immediately behind each item are used by a Western Drugstore to assist the clerks in securing "companion sales." These tags are used to list the items that

tact in making the suggestion in such a way that the customer feels the salesperson is trying to do her a favor by anticipating her needs In no case should the customer be made to feel that any pressure is being brought to bear to induce her to purchase additional merchandise.[1] If the salesperson can make her feel that his suggestions arise from his desire to serve, she will be pleased with his interest

In spite of the many possibilities of suggestive selling, it is evident from studies that have been made that many salespeople make little or no attempt at suggesting additional purchases. In 200 stores throughout the country the Willmark Service System "shopped" the salespeople to determine the extent of suggestive selling being done. Only 8 per cent of the salespeople who were approached made any attempt to sell something other than the article the customer requested. The 200 stores studied included 120 department stores, 60 specialty stores, and 20 chain units. The department and specialty stores carried ready-to-wear either exclusively or in some departments, but food- and drugstores were represented in the chain-store units.

Suggestive Selling by Self-service.—An important development in retailing is the increasing emphasis on self-service.[2] This is really a return to earlier retailing practices of the general store and the grocery store where the customer had access to merchandise and could freely inspect it. In recent decades, both fixtures and layout have tended to separate the customer from the merchandise. Today the supermarket has started the pendulum swinging in the other direction. The supermarket has given the customer free access to its merchandise and has found that soilage, theft, and breakage have not soared, as was predicted. People seem to enjoy making their own selections

---

the salesmen should consider suggesting to the customer in connection with the item being purchased. They act as continual reminders for all salesmen to put forth a little more selling effort and are reported to have resulted in a decided increase in sales volume A feature of this plan is that relief clerks can employ the system and be as proficient as regular workers.

[1] It is said that the Standard Oil Company of New Jersey has been able to raise considerably the unit sale at its filling stations by merely changing the customer approach of their attendants from, "How many gallons do you wish, sir?" to "Shall I fill her up, sir?"

[2] COLLINS, KENNETH, "The Trend toward Self-service," *Journal of Retailing*, December, 1940, p. 98.

without the help of a salesperson Thus the sight of merchandise and the chance to handle it and inspect it results in suggestive selling of quite a different type than that furnished by the salesperson The present trend toward self-service started in the grocery field and has spread to other lines such as apparel until now we have entire stores such as R H. Macy & Co. Syracuse branch, operating largely on the self-service plan. Such self-service selling lessens the need for expert personal salesmanship and lowers the selling cost.

CHAPTER XX

CREDITS, COLLECTIONS, AND ADJUSTMENT[1]

Shall the Store Extend Credit?—When a merchant is ready to start business in a new store, the question of cash *vs* credit is one that must be settled There are also times when a store may consider changing the policy that it has been maintaining. In preparation for such a decision in either case the merchant must consider why he desires to extend credit After seeing clearly the object he desires to gain by granting credit, then the merchant must weigh the advantages and disadvantages to determine their relative importance. On such a basis, he can make an intelligent decision.

If he looks at the experiences of others, he will see many stores that are highly successful in doing a strictly cash business, whereas many others are just as successful although doing a credit business. The examples of other stores will not be sufficient of themselves to guide a merchant

Whether or not to grant credit depends on its effect on profits. At the end of the year will the profit be larger if the merchant extends credit, or will the profit figure be greater if sales are on a cash basis? No matter what problems arise as the merchant debates this credit *vs* cash question, they all lead eventually to the effect on profit To increase profit, then, will be the object of granting credit to the store's customers. A weighing of the relative importance of the advantages and disadvantages of credit extensions will give the merchant a basis of knowledge to use in deciding whether or not granting credit will increase profits.[2]

[1] The student of retail credit will find additional reading in Theodore N. Beckman, *Credits and Collections*, McGraw-Hill Book Company, 1939, and in Clyde William Phelps, "Retail Credit Fundamentals," National Retail Credit Association, 1938.

[2] Some of the arguments for and against the use of credit by a store will be found in Beckman, *op. cit.*, pp. 101–108

There are four advantages to doing a credit business:

1. It is expected by many customers
2. It makes their buying easier
3. It tends to increase sales volume.
4. It binds the customer to the store

A large percentage of the customers in this country buy some portion of their merchandise either on a charge account or on the installment plan, both of which involve an extension of credit In some types of stores the extension of credit is the accepted thing and is more or less demanded by the purchasing public. Where competing stores are extending credit, a merchant will find that his customers expect him to do the same unless he offers some other advantage to take its place, such as a lower price.

Credit does much to make buying easy for the customer It enables her to telephone her needs to the store. It enables her to make unexpected purchases while shopping. If the customer were limited in her purchasing by the amount of cash in her pocketbook, this frequently would mean a great deal of inconvenience to her and lost sales to the store. Many impulse sales would be lost because the customer did not have the cash with her at the moment. Buying on a credit basis also ordinarily makes it easier for the customer to return goods or to get adjustments from the store. If the customer takes undue advantage of this, it becomes a real objection to credit sales from the standpoint of the store.

Credit does a great deal to increase the sales volume. Especially is this true of merchandise of a high unit value such as pianos, radios, furniture, electric refrigerators, and washing machines Many people who desire to purchase these things find it difficult to accumulate the necessary amount If the prospective customer had to have the entire amount on hand before making the purchase, it would mean that there would be a much smaller number of these articles sold. Because credit makes buying easier, it leads to a greater sales volume not only of articles of a high unit value but others as well.

The opening of a charge account creates a link between the customer and the store. Charge customers tend to make additional purchases in the future at the store where they have an

account. Thus the credit privilege helps build up a regular and dependable clientele

Disadvantages of a Credit Business.—The granting of credit presents certain problems to the store Chief among these are

1 The loss from bad debts
2. Other costs of credit granting
3. Possible increase in the cost of goods
4 Greater capital investment required

When merchandise is sold on credit, it is exchanged for a promise to pay at a later date When that date arrives, there is the possibility that the purchaser will be either unable or unwilling to pay. From some credit customers the store will never be able to get payment. As a result, the granting of credit leads almost inevitably to some loss from bad debts Such a loss must be deducted from the expected profits on sales Even if credit does result in a greater sales volume, the loss from bad debts incurred through a more liberal credit policy may more than overbalance the expected profit on this extra sales volume As a result, profit diminishes or even turns into a loss. If the credit department is well managed, the loss from bad debts can be kept at a minimum The average person is honest and desires to pay. Bad-debt losses of less than 1 per cent of sales are found in many stores all over the country "It is only the small retailer, who will not bother to avail himself of the facilities of the local rating bureau, and who extends credit unsystematically, who finds credit business too costly to justify its convenience."

The granting of credit involves other costs in addition to the loss from bad debts In a small store the proprietor must spend a portion of his time in deciding whether to grant credit to certain individuals, in keeping a record of all purchases made by these customers, in sending out statements, and in attempting to collect overdue accounts In a larger store, there will be a person who spends all his time at this work, and as the store increases in size there will be built up a separate department for credits and collections. The cost of all this work is an extra expense resulting from the fact that the store sells its merchandise for credit.

It frequently is stated that the store which sells on a credit basis must charge more for its merchandise because it must cover the cost due to credit extension. In other words, credit increases

the cost to the customer This is not necessarily true If the overhead costs are spread over a greater volume of sales, the net profit may increase without any increase in the selling price of the merchandise. In those cases where the price of the merchandise must be higher because of the extension of credit, the customer is usually willing to pay this because of the extra service received.

One great disadvantage to a credit business from the viewpoint of many merchants is the fact that it calls for a greater capital investment. The store has money tied up not only in merchandise and fixtures but in accounts receivable as well A merchant whose available capital is limited finds this disadvantage a very great one. With a certain portion of his capital "frozen" in accounts receivable, he runs into financial difficulties in the management of his business Some merchants have been unable to continue in business on this account. In a great many of these cases a better management of credit extension and collection would have prevented such a disaster. However, the fact remains that the extension of credit calls for greater capital investment

Twofold Function of Credit Department.—When a store grants credit, it does so because it believes that in so doing it will increase its profits. No profits are possible unless the store sells merchandise. Even then no profits are possible unless the customer pays for what he has purchased. Because of these two facts, the credit department is faced with two functions which at first glance seem to be in conflict with each other. This twofold function is

1. To build sales volume[1]
2. To protect profits

When too much emphasis is put on either of these functions, the other will suffer. If the credit department permitted everybody to have an account with the store regardless of his or her desirability from a credit viewpoint, the sales volume would increase tremendously. People would buy in this store who could not get credit elsewhere and would buy in larger amounts than usual. This is an extreme example, but the pressure to build sales volume is always present.

[1] Fourteen ways of increasing credit sales is discussed by J. W. Waddle in "Developing New Business," *The Credit World*, January, 1941, p. 20

Every time an applicant for credit is rejected and every time a customer is not permitted to exceed his credit limit, it seems that the credit department is standing in the way of greater sales volume By extending credit the store permits people to buy who otherwise would not patronize it.[1] The public has shown that it wants the credit privilege, and what the public wants it usually gets; thus, credit is used to build sales volume.

The second function is to protect profits. Sales volume is nothing in itself An increasing sales volume is worth working for only when it increases profits. Therefore the credit department, in working to build sales volume, at the same time must protect profits. If the credit man considered only the protection of profits, he might then grant credit only to those who had the highest credit rating. The store's credit losses for the year would in such a case approach zero. But in accomplishing this a great many people would be refused credit simply because they were not A-1 risks Yet these same people, if properly handled, would pay what they owed the store in almost every case However, there would be some risk.

The credit man who is afraid to take a risk will be a stumbling block in the way of increasing the store's sales. On the other hand, the credit man who forgets he is protecting the store's profits will have a high percentage of loss from bad debts, a loss that will cut down profits Credit is a service only when it is properly extended The ideal credit man is the one who can strike a happy medium. He lets as many people as possible buy from the store without getting too large a percentage of loss from bad debts.[2] The proof that this is not easy to do is seen in the recognition by stores that control and intelligent handling of consumer credit is one of the most important problems facing the retail world today.

The Credit Man.—In a great many stores the duty of extending credit and of collecting overdue accounts is assumed by someone who gives only a part of his time to that work. It may be the

[1] "Every credit department should be considered a credit SALES department—otherwise the credit department is not functioning one hundred per cent." S. C. Lawrence, "A Four-way Challenge to Credit Managers," *Retail Ledger*, February, 1935, p. 9.

[2] If he compares his bad-debt loss with that of the average of stores similar to his own, he can see whether his figure is growing too high.

proprietor, the manager of the store, the head salesman, or even the bookkeeper in some cases Only as a store grows can it have one or more people who specialize in credit and collection activities. Whether such work calls for all or only part of a person's time, that person should have certain qualifications to fit him for this work. A credit man should

1 Be tactful
2. Understand human nature
3. Have an even disposition
4. Have a pleasing personality
5. Be a salesman
6 Have some knowledge of commercial law
7. Know how to interpret himself to others

The retail credit man must have even more tact than one occupying a similar position in a wholesale or manufacturing firm, for he is dealing largely with people who are unfamiliar with business practices. The majority of those he interviews are women, and in many cases they are inclined to resent giving some of the information requested. As a result, he must be exceedingly tactful not only in what he says but in his manner. If he can put the applicant at ease, she will more freely discuss her affairs. To a person unaccustomed to business, the thought of meeting the credit man and being interviewed may seem quite an ordeal. Therefore, the first thing is to make the customer forget that it is an "ordeal" and think of it only as a friendly conversation between two persons interested in the same thing—the opening of an account

Because the credit man is continually dealing with people, he must understand human nature if he is to deal with them to the best advantage. It is largely through his ability to understand people that he can be tactful, for such an understanding is necessary if he is to see things from their viewpoints Different people have to be dealt with in different ways, especially in the collection of accounts. Knowing the treatment each person needs calls for a clear understanding of human nature.

Many irritating things happen to a credit man during the day's work. At times the people with whom he deals may try to hide the desired information, and they may grow angry and even insulting. But, through it all, he must keep an even disposition

if he is to be at his best. By keeping his own temper, he makes it easier for the customer to control hers

The credit man who has a pleasing personality makes it easier for people to deal with him A pleasing personality is an asset in all phases of life but especially so to one who must meet and have contacts with a great many people

Acting as a salesman might not at first thought seem to be one of the credit man's duties. He should, however, continually be "selling" the store and its policies to all the people with whom he deals A customer forms her opinion of the store from her treatment in the credit office as well as from that received from the sales force. In interviewing a woman who is asking for the privilege of a charge account, the credit man has a chance to "sell" her on the store as an institution at the very beginning of her dealings with that store Even when it is not possible to extend a charge-account service to the person making such an application, he should still "sell" that person on the store and make her desire to trade there on a cash basis

In the extending of credit and the collection of overdue accounts a knowledge of commercial law is invaluable Such a knowledge will make the credit man cautious in letting certain people have the charging privilege. It will also tell him how far he can go in his attempt to collect an account. In many cases, it may be better to suffer a loss rather than use the legal means open to the store

The last qualification of a credit man should be an ability to interpret himself to others. To succeed he must have vision, but unless he can put this vision across to others he fails. The lack of this ability is the factor that keeps some otherwise brilliant men from success. Good English is a vehicle for interpreting one's ideas to others As the credit man talks to customers who come to his office, he should be able to explain his ideas in clear, concise English so that there will be no misunderstanding on their part of the rights and obligations involved in this new relationship between the store and its customer. The same ability to express oneself correctly is just as necessary in any letters coming from the credit man. In fact, the letters require even greater skill, for in a conversation the tone of voice and manner of the person speaking carry part of the message.

The Basis for Credit.—Whenever a store grants credit, it assumes some risk. It is the credit man's job to analyze any application for credit in order to determine whether or not the risk involved is one that should be accepted by the store.[1] Character, capacity, and capital have long been considered the "three C's" of credit granting They are the three fundamental factors to be considered in deciding whether or not a person is an acceptable credit risk.

Character shows the person's willingness to make payment. One way of judging a person's character is by getting his past record When this shows he has paid other people promptly, has been successful in business, and stands well in his community, it indicates a desirable risk so far as this one factor is concerned Although character is the least tangible of these three credit factors, it is normally the most important one and is susceptible of being definitely established.

Capacity refers to a person's ability to do or accomplish things. It is of importance in judging a credit applicant because it shows in general his ability to pay for future credit purchases that he may make. From the standpoint of retail credit, the applicant's capacity is judged by his ability to earn enough to pay for his purchases, the ability to get ahead as determined by earning power, the consistency with which he holds his position, or the efficiency with which he conducts his business, if in business for himself. Character and capacity are closely related. It is partly because of one's capacity that he has the character he possesses. On the other hand, however, one can have capacity without having good character.

[1] The retailer will be interested in a rating chart used by the Federal Housing Administration to evaluate prospective borrowers

	Per cent
Character	30
Attitude toward obligations	15
Ability to pay	15
Prospects for future	12
Business history	10
Ratio value of property to annual income	7
Ratio monthly mortgage obligations to income	6
Associates	5
Total	100

Capital or financial resources is the least important of these three factors. As stated in the Fifteenth Census of the United States, Summary of Retail Distribution,[1] "It is a characteristic of the retail industry that the basis for credit is not capital primarily, but character. Retail credit is based upon personal background, ability to earn a decent living, and the habit of paying bills with reasonable promptness when they are due." A person of character and capacity ordinarily is entitled to credit His capital or financial standing will be an aid in determining how much credit should be extended to him. Naturally, there is ordinarily a close relationship between capacity and capital For example, a credit applicant may have lately inherited money and so will rate well at present for the capital factor, but he may not know how to manage his finances wisely; clearly, both present capital and capacity must be considered in judging the applicant's future capital.

A person's character shows his willingness and intention to pay his bills; his capacity shows in general the ability he will have to pay his bills in the future and to what amount; his capital is helpful in deciding on credit limits and also shows whether or not the store can force him to pay his account if he does not voluntarily do so.

The Routine of Credit Granting.—The customer requesting credit may be one who has been solicited by the store or may be one who has voluntarily asked for the credit privilege. Many stores actively solicit charge accounts. The membership lists of certain lodges, clubs, and societies can be checked with the store's accounts in order to get a list of those people not having accounts with the store. A credit bureau, a public-utility company, or a transfer company can tell the store of new families moving into the town. In a smaller town the list of a store's accounts can be checked with the telephone directory. After such a list of possible credit customers is compiled, the credit department can make an investigation of their desirability from the store's viewpoint.

After the list is revised, an invitation can be sent to these people to visit the store and request an account. Some stores may notify the prospect that an account has already been opened for her and that she is free to make use of it. The safer

[1] Fifteenth Census of the United States, p. 25.

policy is to invite the prospect to apply for the privilege of an account. This permits the store to get additional information concerning the applicant and places the store in a less difficult position if it is finally necessary to reject the application In some cases the sales force is encouraged to solicit new accounts for the store. If it is not felt wise to permit the salesperson to urge a customer while in the store to ask for an account, for fear she will feel that the store is bringing pressure on her unduly, the salespeople may be required to do this soliciting after store hours. Some stores advertise for charge customers

A great many accounts are the result of the customer's voluntary request for this privilege. To illustrate, suppose a customer has just made a purchase. While making out the sales slip the salesperson asks if the customer has an account or if it is to be a cash purchase The customer may say that she does not have an account with that store but would like to open one In some cases the salesperson will then take the customer to the credit office where such an account can be opened. Before they get there the salesperson can learn the name of the customer In this way the customer can be introduced by name, and thus this information is given the credit man without the necessity of his asking the customer. When the salesperson does not accompany the customer to the credit office, the latter should be given clear directions as to how to reach the office and for whom to ask.

The application for credit should be taken in the credit department rather than on the sales floor or wherever the customer happens to be. Such an arrangement ordinarily results in a more careful handling of the applicant and makes possible a better understanding between the customer and the credit department with regard to such things as the credit terms, who is authorized to buy on the account, and similar provisions of the credit arrangement.

Everything should be done to put the customer at ease in the credit office. This not only makes it more pleasant for the customer but makes it possible for the credit man to get the desired information most easily. "He who would make friends must first show himself friendly" is a good precept for the credit man as well as for the sales force. A simple yet tastefully furnished

office gives a pleasing first impression and will command the respect of the applicant.

It should be possible for the interview to be conducted in private so that other people will not hear the information being given Many people resent having to discuss their credit position in the presence of others In many cases the person has been invited by the store to open an account Because she is in the credit office by invitation, she should be treated as the store's guest. The "third degree" atmosphere should be entirely lacking.

If carried on in a conversational style, the interview is easier from the customer's viewpoint. This takes more tact and effort on the part of the credit man but is worth the extra effort in results. When the customer appears to be accustomed to credit practices, she may volunteer much of the information desired More direct questions can be asked such a person, for she will take them as a matter of course. In some cases the applicant will be very reticent, and it will be necessary to ask questions more indirectly.

Experience will develop the credit man's understanding of human nature. Some applicants will endeavor to give him a misleading impression They assume an air of greater wealth and standing than they really possess. The interviewer must see through this camouflage Some pretend to be insulted if too many questions are asked. This may be to prevent them from being asked questions, the answers to which would not help their credit rating. Others will talk at great length in an attempt to cover up certain facts or to sidetrack the interviewer. Still others will give such indefinite answers that they convey no information. In such a case the interviewer must persist in a tactful manner until he gets the information he needs.

When the necessary information has been secured, the credit man should thank the applicant for calling and tell her that the store will notify her as quickly as possible concerning her application When an account is opened, a letter of acceptance can be sent to the applicant at her residence address Some stores send a similar communication to the husband at his business address. This may save the store grief in case the husband is not aware such an account is being opened. The verification

of the information received should be obtained quickly so that the customer may be notified promptly of the opening of an account.

In some cases, she may wish to make immediate purchases. Some stores will not permit any purchases to be charged by the applicant until final approval is given to her application This frequently results in an inconvenience to the customer, for she is likely to defer asking for the privilege of an account until such time as she desires to use it. Most stores will permit their credit man to use his discretion in allowing the customer to make limited use of an account while further investigation of her credit standing is being made.

In case it does not seem best to give the applicant the use of an account, she must be so informed Usually, this refusal is made by letter. Such a letter requires much tact, for it must notify her of the store's decision and at the same time "sell" her on the idea of buying on a cash or a C O.D. basis. If one store finds her an undesirable credit risk, no doubt other stores have reached a similar conclusion; thus, this store's refusal to do a charge business may not be unexpected by the applicant. Just the same the letter should show consideration for the customer and suggest that, although the store is at present unable to extend credit, it hopes that at some later time this may be possible. It should suggest that in the meantime the customer continue to buy on a cash or C.O.D. basis.

In refusing a customer credit, it is better to make a simple statement to that effect rather than to go into details of the reasons for refusal. The latter course would only lead to an unpleasant discussion and emphasize the fact in the customer's mind that the store had refused her credit. The emphasis should rather be put on buying from the store on a different basis for the present, at least.

Information Needed—Although the applicant for credit is asked for different information in different stores, there are a number of points that are common to almost all. The first thing is the full name of the applicant. It is best to ask for the full name in the beginning; otherwise, only the initials or even a nickname may be given. The full name is necessary to avoid confusing the accounts of people having similar initials and surnames. The age of the applicant will usually be an estimate

by the credit man unless he is in doubt as to the applicant's being of legal age. If the applicant is still a minor, the approval of the parents or guardian or in many cases a written guarantee by them or some responsible party should be secured. Whether the person is single or married and who will be authorized to use this account must be learned The present residence address will be recorded as well as the length of time the applicant has lived there If this is a fairly recent address, the previous one should be requested.

What is the applicant's business or her husband's business? The business address? What does he do with that company? If tact is used in getting such information, it will not arouse resentment. If the credit man can remember much of this information until the prospect has left, it is better to wait until that time and then write it down In this way it is easier to maintain the conversational nature of the interview and so prevent the applicant from feeling that she is being cross-examined.

Does the applicant own property? Some stores want to know its probable value and whether or not it is unencumbered.

The name of the bank that the customer patronizes should be recorded. If the bank has branches, the address of the branch where the applicant has her account should be included, also. The signature of the applicant will be requested. This can then be compared with the signature on sales slips when purchases are made.

References usually are requested. These will include the names of other stores where the applicant has an account. Such references can be checked quickly. If the applicant does not have credit relations elsewhere, it may seem best to make a more careful analysis. Personal references will have to be judged with caution. In giving a personal reference, one naturally gives only the names of those one feels will give him a good recommendation. Unless the credit man knows the standing of the references given, he cannot judge the worth of their statements concerning the applicant. In many cases the store does not use a personal reference as a basis for granting credit. They can be used later, however, in tracing the customer when the store does not have her present address

Retail Credit Bureaus.—In recent years, stores have learned to cooperate with each other in the exchange of credit informa-

tion. This cooperation has done a great deal to protect them from the habitual slow-pay or no-pay customers To illustrate, suppose a person orders a supply of coal from one coal company and does not pay for it Naturally, he can get no more credit with that firm; but the next fall he lays in his supply of coal from another company and then fails to pay them Another customer has an account at a certain store but does not pay. When he can no longer buy at that store on credit, he goes to another store and opens an account there, repeating this process indefinitely. An interchange of credit information among retailers enables them to prevent such actions on the part of customers

Today, most cities and many towns have a retail credit bureau which acts as a clearinghouse for its member stores Each store supplies the bureau with information regarding the amount of purchases and the speed of payment of its credit customers When a store requests a report from the bureau on a particular person, it is given the information that the bureau has, but this material is given in such a way that it does not reveal the identity of the stores concerned.

As a rule, this credit information is so kept that it can be given to a store at once when it is requested by telephone Some stores have telautograph service systems for sending inquiries to the credit bureau and for receiving the answers In this system the credit inquiries are written on the telautograph instruments set up in the credit department of the store. The inquiry is reproduced in written form on the receiving set in the credit bureau. Just as many inquiries as the store wishes to make may be written one after the other. These inquiries are answered with the same amount of speed as if they were telephoned. The difference is that the answers are written. Because there is a written record of both the inquiry and the answer, the system insures the highest degree of accuracy. There is no possibility of misunderstanding any of the information as may occur when a telephone is used. If any error is made, there can be no alibi, for the written record is there—even the handwriting of the person who made the inquiry and that of the person who answered it.

Naturally, for many stores a telautograph system would not be practical. Those stores which make enough inquiries of the credit bureau to make the telautograph service worth while are finding it of great value. In addition to the factor of accuracy,

which has already been mentioned, the system helps in saving time in the credit department of the store. After the inquiry has been written, the person making it can turn to some other work because there is no need to hold a line for an immediate answer as there would be with the telephone system

In some cities the retail credit bureau publishes a rating book, in which all people having retail credit accounts are listed, together with the bureau's rating for each individual, such as "prompt," "good but not prompt," etc Such rating books soon become out of date unless they are continually revised. As a result, many bureaus feel that it is better to give reports and ratings only as called for, because in this way they can be up-to-the-minute reports

A retail credit bureau may be financed in two ways Each type of store can be charged a flat rate per year. This rate is determined by the amount of service which that type of store would use Department stores will be charged the highest rate of all, for they make more use of such a service than any other type of store. As a rule the rates charged increase with the size of the city. The other method of financing a retail credit bureau is to make a charge for each report rendered by the bureau Different types of report may carry different rates Usually the charge to a store is a combination of the two methods; the store pays a membership fee, which usually includes a certain maximum number of reports, and then pays extra for additional reports or for special services.

In addition to giving credit information on individuals, these retail credit bureaus render a number of other services They conduct educational campaigns to teach the community to pay its bills promptly. Such special events as Pay-up Week are conducted also. Such an event sets a definite time when everyone is to pay up all back accounts. Through proper publicity and by getting the whole community interested, such campaigns have been made quite successful.

Meetings are arranged where members with similar credit problems can "get together" periodically and discuss their mutual problems. For example, the credit men of the various department stores in a city will meet for an hour or two one day each week for discussion. Other groups may meet at the call of the secretary when special problems of interest to the group arise.

Most of these bureaus furnish some form of collection service. Through the national organization, they are able to trace people who have moved away from the community. The retail credit association of a Southern city opened an adjustment bureau, for the purpose of assisting, in a sympathetic way, honest debtors who were hopelessly involved to "pool" their accounts and amortize them by making small payments over a long period of time, thus preventing garnishment and bankruptcies and relieving the debtor of great worry.

Identification of Charge Customers.—After a charge account is opened, the credit department must devise a system that will enable the department to exercise as complete a control over the purchases on the account as is practical. This control system includes a method of identifying charge customers, when this is necessary, and a plan for authorization of charge sales. The proper treatment of these two problems requires that a distinction be made between "charge-take" and "charge-send" transactions. One reason for this distinction is that the time element is very much more important in the case of "charge-takes," those charge purchases which the customer wishes to take with her, than it is for charge purchases which are to be sent out to the customer. Secondly, a distinction must be made between the two types of transaction, because the problem of identification of charge customers arises chiefly in connection with "take" transactions inasmuch as the customer must be properly identified before leaving the store with the merchandise purchased. In the case of charge-send transactions, however, the address to which the goods are delivered and the signature of the recipient on the delivery slip serve as an adequate means of identification

Credit identification includes all methods of determining that a customer who is attempting to purchase on a charge account is who she says she is. Unless the store makes certain that the person has a charge account or is entitled to buy on another person's account, there is considerable chance of fraudulent purchases.

Many different methods of identifying charge customers are used. In some instances, methods of identification are combined with authorization, as will be pointed out below. A number of stores use a coin, card, or ticket method of identification. At the time of purchase the customer presents a numbered coin, card,

or ticket which was given to her at the time the account was opened A customer may object to carrying such a coin with her Another customer has forgotten her coin. Still another customer has just lost her coin. In these cases, identification becomes a matter of judgment. Ordinarily, these identification coins or cards not only identify the possessor but also serve to indicate authorization to buy within certain limits without the necessity of the salesperson's referring the purchase to the credit department. When larger amounts are involved, the regular methods of authorization must be followed. When coins or cards are used as a basis for authorization of certain purchases, the salespeople (or floormen) must be kept informed, through daily lists, of the lost coins or cards and of those belonging to closed accounts

Another means of identification is the customer's signature. She is requested to sign the sales check, which can then be compared with the signature on file.

Some stores give the charge customer a small metal plate which bears the name and address of the customer. This plate not only serves as identification but in addition can be used by the salesclerk for obtaining the correct name and address without questioning the customer Ordinarily the plate is made so that it can be inserted in a small hand machine accessible on each sales counter; a single press of the hand will print the customer's name and address on the sales check.

Other means of identifying the customer are by recognition by the section manager or by the presentation of a letter, license, or any other evidence that tends to prove the customer is who she says she is

Authorizing Charge Purchases.—The authorization of a charge sale refers to the "O K." of the charge transaction by the credit department The purposes of authorization are: (1) to make sure that the person has a charge account; (2) to prevent the amount of credit granted exceeding the credit limit established for the account.

The various methods of authorizing charge-take transactions may be classified as: (1) floor authorization, (2) pneumatic-tube or cable-system authorization, (3) telephone authorization, and (4) telautograph authorization.

Floor authorization was discussed in connection with identification. Under this system the sales check is authorized by the

floor manager and, at times, by the salesperson when she is convinced the customer has an account. As previously pointed out, this form of authorization is used only for charge-take purchases of small amounts. For example, the salesperson may be permitted to turn over to the customer packages up to a $2 limit and a floorman may release merchandise up to $5 without authorization from the credit department. This plan saves time for both the customer and the store without incurring a large risk. Some stores, however, do not permit the delivery of any merchandise to the customer at the time of purchase until the purchase has been authorized by the credit department

In the pneumatic-tube or cable method of authorization the sales checks are sent by pneumatic tube or cable carrier to the credit department or to an authorization station where files of customers' names and credit limits are kept. If the charge is "O K.," the salescheck is stamped and returned to the selling department.

If telephone authorization is used, the salesperson calls the authorizer in the credit department or authorization room who has that part of the alphabet in which the customer's name falls. The salesperson gives the customer's name, address, and amount of purchase. The sales slip is placed in a slot in the telephone where it is automatically stamped before being released if the authorizer passes it for credit The authorizer has the credit information arranged before him in such a way as to be able to answer very quickly.[1]

Some large stores use the telautograph system of charge authorization. In this system the credit inquiry and the answer

[1] One department store using the telephone charge-authorization system lists the following advantages of the system.

1. Saving of authorization time for charge checks. (*a*) Periodic checks made in various departments of the store show that approximately 20 seconds elapse from the time the sales check is made out until it is released from the slot at the telephone with the credit "O.K." from the central credit office as compared with from 2 to 4 minutes under the previous system

2. Increase in the amount of actual selling time

3. Saving of time improves store service from the viewpoint of a customer

4. Consumer congestion at many counters is minimized.

5. Fewer cashiers needed in the central tube room because only cash transactions are handled in this department.

6. System removes a heavy load from the pneumatic-tube system, thereby speeding up cash transactions.

from the credit department are electrically transmitted in written form by telautograph. The chief advantages of the system as compared with telephone authorization are that all sorts of confidential inquiries can be made and replies received without the customer overhearing anything, no telephones are tied up while waiting for a reply, signatures or initials of the persons communicating may appear on the slip as a means of fixing responsibility, and it is possible to transmit a customer's signature to the credit department for identification purposes.

The authority of the regular authorizers is clearly defined and limited. If the requested purchase will make the customer's account exceed the credit limit or if there is any irregularity about the request or the account, the case is referred to the "refer authorizer," who often is an assistant to the credit manager He either passes the request or else takes up the matter with the customer.

The problem of authorizing charge-send transactions is much less difficult, largely because the element of speed is not so important The chief methods of authorizing send charges are: (1) preauthorization; (2) delivery authorization; (3) drawback authorization.

By preauthorization is meant the authorization of the sales check before the merchandise leaves the sales floor. In delivery authorization the sales check, which accompanies the goods, is inspected and authorized in the delivery department before the merchandise is sent out. In the drawback system of authorization, all packages are released to the delivery department and the corresponding sales checks are sent to the central authorization section. Thus this system differs from the preauthorization and delivery authorization systems in that the packages are released to the delivery department before the sales checks have been authorized. If a sales check is not approved, the corresponding package is withdrawn, or "drawn back," from the delivery department All packages not "drawn back" are considered as authorized.[1]

Installment Credit.—Installment credit differs from ordinary retail credit fundamentally only in one respect. Instead of

[1] For a discussion of the advantages and disadvantages of this method, see O Preston Robinson and Norris B Brisco, *Retail Store Organization and Management*, pp. 357-358, Prentice-Hall, Inc., 1938.

having the customer pay the full amount of the bill at the end of a given credit period, he pays his obligation in fixed portions or installments at stated periods as agreed upon at the time the installment sale is made.[1]

The volume of retail sales made on an installment-credit basis has reached large proportions in recent years. In 1940 installment sales were estimated at 5 billion dollars.[2] For several years there has been a weakening of credit safeguards—the volume of credit business has greatly increased, the length of the credit period has become much longer, the variety of articles sold on the installment basis has increased, and installment credit has been extended to those of much lower incomes than formerly. It would seem safer to have the pendulum swing in the opposite direction—toward a more conservative granting of credit.[3]

Opinions differ as to the economic and social desirability of installment credit and much has been written and said for and against sales made upon that basis. However, a conservative use by the retailer of installment credit would seem to be sound merchandising policy.

COLLECTIONS

Connection with Credit Department.—In some cases the collection of overdue accounts is handled separately from the extending of credit. In other cases, collection is a duty of the credit man; this arrangement is based on the theory that, because he authorized the extension of credit, it is his duty to see that the person pays what he owes the store because of that extension.

At the time a person is extended the credit privilege, she should be told the store's terms. If these are clearly stated, there will be no chance for a misunderstanding when the store tries to collect the account. "The secret of successful collections by retailers is to have your customers *know* you expect their payments by the tenth of the month following purchase," according to a statement in *The Credit World*.

[1] BECKMAN, *op cit.*, Chap 7

[2] MERRIAM, MALCOLM L., "Current Developments in Consumer Credit," *The Credit World*, August, 1941, p. 30.

[3] Federal Reserve Board orders, effective Sept 1, 1941, place a time limit on installment credit as a move toward safer use of that form of credit.

Much of the good selling work done by the credit man can be destroyed by poor collection tactics. Especially is this true when a standardized method of collection is used. Each overdue account must be treated according to its own merits A customer who has had long and satisfactory dealings with the store may have let her account become overdue This case certainly requires different treatment than that accorded to a new customer whose credit rating was not particularly good in the beginning.

Tact and good judgment are just as necessary qualifications for the collection manager as is firmness. On the other hand, the mistake should not be made of believing that firmness is not desirable A store that has the reputation of enforcing its credit terms has the respect of its customers

It should be the object of the credit department to handle its overdue accounts in such a way that customers not only will pay what they owe the store but will continue to be customers. A customer who has an overdue account at a store may feel ashamed to go into that store and order more merchandise until the account is paid. Instead, she goes to some other store to purchase. When she has paid this overdue account, she again feels free to trade at the first store.

By the store's collection procedure the customer may be taught to become prompt in paying in the future.[1] In other cases, it may not seem best to continue giving a charge account to a customer. It then becomes the job of the collection department to sell the customer on the idea of continuing to trade at the store but on a cash or a C.O D. basis The statement can be made that, although it is impossible to continue the privilege of an account, the store hopes that the customer will feel free to do a cash or a C.O D. business until the store is again in a position to extend the credit privilege.

Grouping Credit Customers.—A store's accounts might be sorted into three main groups: (1) prompt pay, (2) slow pay, and (3) no pay. The prompt-pay customers are those who pay their bills as they come due. If all customers fell into this class, there

[1] One credit manager stresses the point that 99 per cent of the people are honest. Their slowness in paying accounts is not due to dishonesty but to a disregard for the meaning of prompt payment HILTON, MARIE, "New Developments in Collections," *The Credit World*, May, 1941, p. 16.

would be no need for a collection department. However, in its effort to build up the volume of sales the credit department is justified in extending the credit privilege to many who do not prove to be prompt in their payments

A large number of people will fall into the slow-pay class. For various reasons, they do not pay their accounts when they become due. Only with proper encouragement from the store will they pay. Their degree of slowness varies On the one hand, there is the person who pays when he is reminded that his account has become overdue At the other extreme is the person who will not pay until the store becomes most insistent.

The third class is the no-pay customer. He is the person who cannot be forced to pay. He is not willing to pay and is not in such a financial position that the store can force him to pay. Such a person quickly builds a reputation for himself which forewarns those stores which cooperate in the exchange of credit information.

By dividing the accounts into these different groups, it becomes easier to give each its proper treatment. A person who is in the prompt-pay class may be treated more leniently than others. When such an account becomes overdue, the store may not start its usual collection procedure at once. It prefers to wait, on the assumption that there must be some good reason why the customer has not remitted. Her past record permits the store to give her the benefit of the doubt for a time.

The Collection Process.—The statement to a charge customer of the store should go out promptly on the first of the month. This may necessitate closing the books a couple of days early each month. The monthly statement then will show the charges made to that account during the first 28 days of the month and the last 2 or 3 days of the previous month. In this way the store's statement will reach the customer on the first day of the month, thus setting an example of promptness.

The statement gives an itemized list of the purchases charged to that account with the dates of purchase. If additional statements must be sent, such itemized lists are not prepared. They simply carry a statement of the balance due. The usual practice is to request payment within 10 days. If the account is not paid at that time, the next step should depend upon the account itself and upon the store policy.

The older an account grows, the more difficult it becomes to collect.[1] The longer a customer waits after she has made a purchase, the harder it becomes for her to part with her money in payment for that purchase. Therefore, the store should be prompt in its collection procedure. It gives the customer less time in which to think up reasons why she should not pay the bill. Possibly basing their policy on this principle, some stores begin their collection procedure as soon as an account becomes overdue, regardless of the previous standing of the account Such a procedure doubtless aids collection, but it must also result in an unnecessary loss of good will.

A plan must be devised for singling out those accounts which need special attention. In a smaller store the proprietor or man in charge of collections can leaf through the books each month and pick these out. As the store grows larger, some automatic means of singling out such accounts is needed.

A department store in the Northwest charges interest on all balances a month overdue unless the customer makes satisfactory arrangements regarding payments It states that this unusual plan has not resulted in the permanent loss of customers The stores in one large city are charging interest on past-due accounts, and the plan is working with little protest from customers. Interest starts from the time the account is due (30 days after purchase), but it is not applied unless the account becomes more than two months overdue.

The collection process, as a general rule, involves sending a second statement followed by a series of letters all aimed at the goal of getting payment. If payment cannot be made at once, the customer should be led to explain her situation to the store. When the store does not know why a customer has not paid a bill, it cannot make allowance for circumstances. It is possible that unavoidable conditions have arisen that have kept the

[1] A study made by the National Retail Credit Association shows the chances for collecting past-due accounts are approximately as follows:

Over 60 days old	89 per cent
Over 6 months old	67 per cent
Over 1 year old	45 per cent
Over 2 years old	23 per cent
Over 3 years old	15 per cent
Over 5 years old	Practically none

customer from paying, no matter how desirous she may be of doing so. If these circumstances are known, the store can make whatever allowances are thought proper

A series of collection letters continue to remind the customer that she should make payment.[1] Repetition will gradually wear down a customer's resistance and often will lead her to pay. However, these letters should carry an appeal to various motives for payment At first a good-natured reminder of the fact that the account is overdue may be sufficient. Then an appeal to good business practice, to fair play, and to honor may arouse the customer to action The appeal to the customer's regard for her reputation will bring some to life. The appeal to fear is the least desirable and the last one to be used. If other appeals have failed, then it is necessary to use this one In the use of this appeal the store should be careful not to overstep itself. In threatening the customer with certain consequences the store must be careful to stay within its rights and to convey its statements in a legal fashion

Additional Means of Collection.—In addition to the letters of collection a store may use other means of collection. The telephone offers an extra channel of approach and is valuable for that reason in itself The appeal is different and so strikes the customer from a different direction. In a case in which another letter might simply be thrown in the wastebasket, the telephone call succeeds in getting attention. It gives the store a chance to talk directly with the customer. The one who telephones should have before him all necessary information that might be needed in the course of the conversation.

The use of the telephone has three disadvantages. It is difficult for the store to prove what was said by the customer. She may later deny having made certain statements or may even deny having talked with the store's representative over the telephone It is likewise easy for the customer to refuse to answer the telephone or to hang up the receiver when she does not care to continue the conversation. The most important disadvantage of the telephone is the inability to get the money at the close of the conversation. Even when the customer has

[1] The possible evil results of the use of form letters is discussed in John W. Griffith, "The Form Letter—A Collection Monster," The Credit World, March, 1941, p. 18.

decided to pay and so promises, some time must elapse before this can be done and in the meantime the customer may change her mind.

Many stores, however, make excellent use of the telephone in collecting overdue accounts. The fact that it is a personal message, a living voice, induces the customer to pay attention when another form letter might go unnoticed. Much of this telephoning is done by women. They are more likely to be tactful and to command courteous treatment from the party at the other end of the line. When the call is for a woman not engaged in business, the best time to call is 9.00 to 11.00 A.M., the hours that are most convenient for the average woman. The telephone call should be brief. Its purpose is to get the customer to promise to pay at a definite date. The object of the call is not to annoy or to embarrass the customer, but instead to lead her to action and to keep her good will at the same time.

When letters and telephone calls have failed to bring in the overdue money, a personal collector can be sent out to see the customer. In a small store, this may mean the proprietor. In another store, it may be the credit man or his assistant. In other stores, it may be a man employed for that purpose either on a full-time or on a part-time basis.

Such a method of collecting involves greater cost than sending letters or making telephone calls. Various types of people have been employed as collectors. In an effort to hold down costs, old men and young men just entering business have been used. Although the young man lacks experience, he thinks more quickly, works faster, and is usually a better match for the person with whom he is dealing. The hope of advancement can be held out to these young men, for personal collecting is a good training ground for a collection or credit man. Some stores have sent out their salespeople at dull times to collect accounts. This has proved successful when the salesperson has been well chosen.

Because the collector's job is not only to get the money but to "sell" the store, such work calls for a high-class person. If a store does not feel that it can afford to hire a person of this caliber, it can do so in cooperation with other noncompeting stores. Between them, they can employ a high-class person for personal collection. It is up to this person to determine the best time and place for calling on each person on his list. The

remuneration for a personal collector is usually a combination of salary and commission.

Extreme Measures.—There are certain measures that can be used in extreme cases However, such cases should not be of frequent occurrence if the credit and collection department has been operating effectively If there are many cases in which legal means must be resorted to in the collection of overdue accounts, this ordinarily is due to a failure of the department to function properly to date. Statements, letters, the telephone, and personal solicitation should collect most of the accounts.

Even when there are legal means available to collect the account, the store may use them only as a last resort or may refrain altogether from using them. One reason for this lies in the cost. If the account is not large, the cost of using legal means to collect it may be so great that it would not be worth the effort. In practically every case, if any other means can be found for collecting the overdue money, it will be cheaper than resorting to legal methods. Another reason is the store's desire to hold the customer's trade, if not on a credit then on a cash basis. This requires the keeping of the customer's good will. When legal means have been used against the customer, it is next to impossible to hold that customer's good will and trade. For that reason, any resort to the law will be delayed until the last.

Because the laws of the various states differ, only a general statement of legal means will be made. Bringing suit against the person owing the store is one method available. If, after a store has secured a judgment against a customer, the defendant does not pay this judgment within a reasonable time, the store's attorney will ask the court for a writ of execution. This is an order directing some official, usually the sheriff, to offer for sale the property of the defendant so that the judgment as well as the court costs may be paid.

In some cases a writ of attachment may be thought necessary. One example would be in case the debtor was attempting to remove his property from the jurisdiction of the court. The attachment would prevent such a removal until the suit could be decided.

If the debtor does not have property that can be seized, he may have wages or property held for him by another. Garnish-

is called the "garnishee." Ordinarily, this third party is the debtor's employer or bank. If judgment is entered against the garnishee, he is compelled to use the debtor's property or wages in his possession toward satisfying the judgment

Securing a judgment against a debtor is of value even though the debtor does not have property that can be attached. Should the debtor later acquire some property, the judgment will then be a lien on this property. There is also the fact that a recorded judgment stands as a continual black mark on a person's record. Only when the judgment has been paid can this be removed.

When a store considers the possibility of getting a judgment against a person or garnisheeing his wages, it must find out whether exemptions granted that person by law will make such action useless The amount and nature of such exemptions differ in each state. Practically all states permit a portion of the wages to be exempt. Certain homestead exemptions and personal-property exemptions are usually permitted, also.

There is also the possibility of bankruptcy proceedings. The National Bankruptcy Law states the conditions under which a person may be judged a bankrupt. As a rule a store receives only a small percentage of its claim against the bankrupt in such a proceeding A composition settlement between the bankrupt and his creditors is in the nature of a compromise agreement In return for a partial payment of claims the creditors acknowledge this as being payment in full. This may be more satisfactory than carrying the bankruptcy proceedings to a conclusion.

ADJUSTMENTS

Problem of Returned Goods.—In some stores, complaints and adjustments are handled by the credit and collection department Dissatisfaction over some purchase or service of the store may be the reason given by the customer for her delay in paying her account. An outstanding cause of adjustments is the policy followed by most stores permitting the customer to return merchandise The returned-goods problem is more difficult for those stores selling on a credit basis for credit purchases are more likely to be returned than cash purchases.

Many years ago, Marshall Field and Company adopted the policy "The customer is always right." When she desired to return merchandise to the store, her statements were accepted

as correct and the return was permitted Such a policy did a great deal to build confidence in the store and its merchandise The average person is honest and wants to deal fairly with the store There are some, however, of a different type. That losses due to the latter type are more than balanced by the good will developed among all the store's customers is the argument for the policy "The customer is always right."

Conditions today, however, are not the same as they were at the time when Marshall Field inaugurated such a policy. The policy is not needed now in many stores as it was then to build confidence in the store and its merchandise, although today just as then the good will of the store's customers must be maintained. Many stores now are letting the past record of the customer determine whether or not this policy will be followed. When the customer has had an unusual number of returns and adjustments, a different treatment is required than in the case of the average customer Interchange of information among the stores of a city will reveal the chronic offenders and put the store in a better position in dealing with them.

There are also certain types of merchandise that a store will not allow a customer to return for sanitary reasons. This may be a store policy, or it may be a municipal health regulation, as well. Such articles would include underwear, hair goods, bedding, etc. Likewise, merchandise which has been made to order or that which has been altered at the customer's direction may not be returned Some stores set a time limit beyond which merchandise is not returnable

Causes of Returns as Classified by the National Retail Dry Goods Association.—The Committee on Causes of Customer Returns of the N R.D.G.A. has classified the causes of returns as follows:

A. Store responsibility
  1. Policy causes
    a. Store-customer relationship
    b. Internal store-organization problems
      (1) Leased departments
      (2) Centralized *vs.* decentralized returns
    c. Wage-payment methods as a cause of returns
    d. Too-liberal charge-account or selling policy
      (1) Encouragement of charge-account privilege

(3) C.O.D returns

2. Merchandise causes
   a. Poor-quality merchandise
      (1) Material
      (2) Workmanship or construction
      (3) Design or fit
      (4) Performance
   b. Peculiar to particular merchandise
   c. Stocks incomplete as to size, color, style, etc.
   d Price as compared with similar merchandise elsewhere
3 Service causes
   a. Selling
      (1) Wrong color
      (2) Wrong size sold, or fit
      (3) Wrong handling of transaction
   b. Nonselling
      (1) Damaged goods
         (a) Packing
         (b) Delivery
      (2) Shortage
      (3) Order filled incorrectly
      (4) Delayed delivery
      (5) Alterations

B. Customer responsibility
   1. Change of mind
   2. Selection of wrong merchandise as to size, color, style, price, quality, or quantity

Reducing Returns.—The real basis for the proper solution of the problem of returns is a careful analysis of the reasons why merchandise is brought back.[1] Each merchant should determine in his own store the real causes of these returns. When he has located the responsibility, he has made a real start on his problem.

As shown by many studies, one of the most important causes of returns is that the wrong size has been sold. A part of this problem may be due to the fact that some manufacturers do not follow standard sizes. Because the sizes vary, it is only natural that the customer must return the article in many instances. In such cases the manufacturer rather than the customer or store is to blame; however, the store is likely to be held responsible by the customer. With such causes of returns, the proper solution from the viewpoint of the store is the edu-

[1] NORDSTROM, LAWRENCE G., "How Customers Explain Their Unsatisfactory Purchases," *Journal of Retailing*, February, 1940, p. 20

cation of the manufacturer in better manufacturing practices or more careful checking of buying sources by the store

Many returns are directly the result of poor selling on the part of the sales force of the store. The solution in such cases is largely one of better training of the sales force both in regard to merchandise and to selling methods. If the sales force knows its merchandise and presents it in a truthful fashion, the customer is less likely to be disappointed after she gets the merchandise home. Too-aggressive selling will lead people to buy merchandise that they really do not want; thus, it will be returned later. On the other hand, there is the case of the salesperson who does not fully explain the advantages of owning an article and does not completely sell the customer on the merchandise. Both these cases lead to the lament "The customer has changed her mind." One large store has placed continual emphasis in its sales training and merchandise clinics upon the need for merchandise knowledge on the part of salespeople and the need for passing this information on to customers; this policy has resulted in a reduced number of complaints and returns for the store.

Finally, the customer herself is responsible for many of these returns. The most desirable solution of such problems seems to be the education of the customer in better shopping methods. The percentage of returned goods differs in different cities. The people in one city have been educated to a more conservative policy with respect to returning merchandise. In another city the stores have been more liberal and people have acquired the habit of free returns. Because the returning of goods seems to be partly a matter of custom, educational work along this line should lead to lower returns. In certain cities the leading stores have cooperated in educational efforts to teach their customers not to make returns without reason. This does not mean that the stores should be less courteous to their customers, but that they should teach them better habits by showing them how the unlimited use of the privilege of returning goods adds to the cost that must be included in the price of the merchandise.

Cooperative efforts are also used to detect habitual offenders. These can be reported to a central bureau just as can the poor

store can then be sent to all the cooperating stores. If the customer persists in this habit, her privilege of returning merchandise can be stopped by all these stores

The type of cooperative regulation is illustrated by the rigid rules adopted by more than a score of the leading stores in one city which provide: sales checks must accompany all returns; gifts of all kinds may be returned only for exchange; merchandise is accepted for return within four days only, or if an exception is made, credit is given at the then market price. In addition the usual rules concerning legal and sanitary precautions apply. The new policy was advertised as a money saver to the public.

Complaints.—Just as every person, no matter how careful, makes mistakes at times, so every store, no matter how well organized and systematized, will make occasional mistakes. When these happen, the customer frequently makes a complaint.[1] From the store's viewpoint, it is desirable that she should. If a customer has a complaint and does not tell the store about it, she usually tells all of her friends and does not give the store a chance to rectify the error One study of customer complaints shows that about 3 per cent of a store's transactions result in complaints The average cost of each is $1.08, or 1½ per cent of sales.[1] A store in Kentucky has a house-to-house-canvass method of looking for complaints. This canvass, which was to be a temporary plan, was intended to determine where antagonism lay, to learn the causes of it, and to discover possible remedial measures The success of the plan has resulted in its being made a permanent feature. In addition to the store's retrieving former patrons with real or imaginary grievances, its mailing list is benefited, it is picking up many valuable sales leads, new patrons are being gained, many small "tips" for the betterment of the store or its personnel are received, and, not to be overlooked among these active returns, good will is being extended.

In a small store the proprietor takes care of complaints. In a larger store there is a bureau of adjustments or service depart-

[1] PILAT, WILLIAM J, "The Customer Complaint Calendar," University of Pittsburgh, 1940. A study was made of 811,187 complaints received by 21 department stores showing what customers complained about and what the stores did about these complaints.

ment. Stores differ in their policy concerning this bureau In some stores, adjustments must be made through this bureau; in others, many adjustments are made through the sales force and the section managers. Some time ago, one large store did away with the adjustment department and all adjustments and complaints are now handled by floor managers. The store feels that making adjustments on the selling floor has made it possible in many cases to resell to customers who return goods for credit or refund. By this method the customer gets prompter service on complaints and she is relieved of the inconvenience of going to an upper floor and possibly waiting for an interview with one of the adjusters. In this store the floor managers are "shopped" monthly by the superintendent's office, weekly reports are required, and all complaints are carefully analyzed as to cause and are followed up

The attitude of the person handling the complaint must be one of sincerely trying to help the customer. She has been inconvenienced in some way either by the store's merchandise or by its services and thus has a grievance. The adjuster should try to get the customer's viewpoint. In most cases an adjustment can be made If the customer is at the store, she should be told at once that the store will adjust the difficulty. If she is informed through a letter, this information should be given in the first part of the letter. If the adjustment cannot be made as requested, then the refusal should be led up to, in either conversation or letter, by a statement of the store's reasons. This makes it easier for the customer to accept the store's decision.

CHAPTER XXI

PERSONNEL WORK IN THE STORE

Scope of Personnel Work.[1]—As a rule a new employee is not of much value to the store. It is only after he has been with the store for a while that he really fits into the store organization and becomes a harmonious part If he is not well fitted for that part, he will have to be moved to some other position or discharged If he is dissatisfied, he may leave of his own volition. In any of these cases the store has been at a considerable expense in carrying him through this preliminary period—an expense that is lost if the employee proves unsatisfactory Thus, it is important that the store select its employees with care, train them for their parts as quickly as possible, and keep them as satisfied employees. This is one of the reasons why the store of today is placing emphasis on personnel work.

Another reason is that the store can function only through its employees. Whether on the selling floor, in the receiving room, in the buyer's office, or in other places, the employees there must be relied on if the store is to be operated successfully. They are the means through which the store performs its work. Because they are such an important part of the store, they deserve to receive its attention just the same as does the merchandise or the store building. The personnel department must see the needs of both the employer and the employees and attempt to build up a relationship between them of mutual trust and respect.

The activities of the personnel department can be divided logically into eight parts: (1) employment; (2) promotion, transfer, and dismissal; (3) training; (4) safety and health; (5) employee services; (6) employee relations; (7) compensation; (8) personnel research. This functional division, however, will not be followed in every store because of different organization policies. For example, in some stores the function of compensa-

[1] ROBINSON, O. PRESTON, *Retail Personnel Relations*, Prentice-Hall, Inc, 1940. This book gives a good discussion of the field of retail personnel.

tion is under the controller's division. It rightly belongs, however, to the personnel department. Other differences will be found in studying the personnel departments of various stores.

The place of the personnel department, itself, in the store's organization is not always the same. In a small store the proprietor or manager usually performs the various personnel functions. In larger stores, personnel work is often found among the duties of the store superintendent. In some of the largest retail organizations the personnel division may be placed under a personnel manager who reports directly to the general manager or president of the store [1]

Employment.—Because employees are so important in making the store a success, it is essential that they be carefully chosen This, then, is the first problem of the personnel man—to pick out the best people possible for all the various positions in the store. The fact that it costs so much to train an employee makes it doubly desirable that the employee be well chosen in the beginning. If, after a well-planned training period, he proves unfitted for work in the store, the resulting loss is due to poor judgment in hiring.

The person in charge of employment has a number of sources from which to get new employees. Present employees or customers of the store may suggest the names of friends. Some stores even pay their employees when they suggest people for employment who, after being employed, remain with the store a certain length of time. Educational institutions are a good source of supply. High schools, business schools, and classes conducted by the Y.W C.A. and Y.M.C.A. will provide people who have had some training. In recent years, stores have begun to turn to our universities for some of their employees. Many of these university-trained people have an excellent background, which, if properly used, proves of real value in retailing work. Advertising in trade papers is used for the filling of higher grade positions. Many people take the initiative and visit the store asking for employment. A person may be a success in one store but may apply for a position with another store because he feels the second store offers an advancement or greater opportunities for him. Former employees who have left the

[1] See Chap. VI for a discussion of the place of the personnel division in the store organization.

store voluntarily offer another good source of supply. Some of these may desire full-time work again; others may prefer part-time or temporary work only.[1] Many girls who have left the store to get married would later like to get part-time work so that they might have spending money of their own.

Many stores feel that each job should be analyzed before an attempt is made to get anyone to fill that job. What are the various duties involved? What qualities are desirable in a person handling such a position? What training is necessary to prepare a person for this work? When the answers to these questions have been compiled, the store is in a better position to fill the job satisfactorily for both the store and the prospective employee. Such an analysis enables the store to select people suited to the job. At the same time, it gives the employee a clear idea of what this new job requires of him. Job analysis is a first step in the process of employment. In place of trying to fit square pegs into round holes, a job analysis provides a start toward seeing that square pegs are fitted into square holes In other words, people suitable for a certain position can be chosen for that position when the requirements of the position itself are clearly outlined Each job has been brought into existence to perform some function in the store's business. A person must be found who is qualified to fill that job, this ordinarily is more successful than the method of trying to fit a job to the man.

When a person applies for work, he usually is required to fill out an application blank [2] This blank ordinarily will ask for the name, address, age, type of work desired, previous experience, and references. Other questions may be added as desired by the personnel department. By checking verbal statements of the applicant with the information given by him on the application blank, some indication as to his truthfulness may be secured.

[1] The suggestion has been made that stores should get many of their rush-season employees from local industries whose slack periods correspond to the store's rush periods. Jeannette Parkhurst, "Trading Talent," *Journal of Retailing*, February, 1940, p. 16.

[2] A cooperative study by six Pittsburgh department stores with the University of Pittsburgh has resulted in improving their employment questionnaires and policies. This is described in "Flaws in Personnel Policies Shown by Questionnaire Data," *Women's Wear Daily*, Feb 7, 1941, p. 39.

Character references are seldom of much value, for an applicant naturally will give the names only of those who will speak favorably of him. Business firms that have employed the applicant will usually take more pains in giving an estimate of him. Some application blanks include questions that require the applicant to rate himself. "Why do you consider yourself fitted for this position?" The type of answer given helps the store in judging the applicant.

From the standpoint of his own welfare, if an applicant is asked to fill out an application blank, it is very important that he fill it out neatly, carefully, and accurately, because some retail stores go entirely or very largely upon the appearance and the information given in the written application. The applicant may be accepted or rejected on the basis of the comparison of his application blank with those of the other applicants

Many stores today have the applicant take certain tests. However, opinion differs considerably as to the worth of many of these tests.[1] Such tests include: (1) intelligence tests; (2) aptitude tests; (3) physical examinations. Several well-known stores employ psychological tests to rate the applicant's intelligence. In this connection, Dr. David R. Craig, writing in the *Retail Ledger*, has said, "Many times we have had occasion to give intelligence tests to groups of salespeople and it's really remarkable to note the almost total lack of relationship between the resultant intelligence quotients and the sales records in the individuals." As an example, he cited the case of a girl with a sales volume far ahead of anyone else who, when faced with the sentence "One and——make two," pondered for 15 minutes and finally wrote "gold" in the blank space. Another girl had to make out this girl's sales checks and attend to the additions on them.

Aptitude tests will show the applicant's ability in certain lines. If she is applying for a position as saleswoman, she can be given tests that will indicate her probable ability to sell. In giving all such tests, allowance must be made for nervousness, for the applicant is placed under a strain when she knows that she is being subjected to a test that may determine her chance to get a job with the store.

[1] VOLLKER, PAUL H., "Testing for Retail Salespeople," *Journal of Retail-*

Some stores require all applicants to take a physical examination. If the store provides any insurance for the employee, a physical examination will be necessary. Others require such an examination only of those who give the impression of not being physically fit or who may have to do unusually tiring work Still others require no physical test whatever. Frequently the applicant resents having to take the physical examination; this may be due to fear on the part of the applicant that it will in some way prevent employment. If the applicant is physically unable to stand the work, it is better for both the applicant and the store that he should not be employed. The physical test may show that, although the applicant is not fitted for certain types of work in the store, he is physically able to work in other positions Therefore the physical test helps place the applicant in that job for which he is best fitted.

Promotions.—The hope for promotion to a better position is a powerful incentive. A chart showing the promotion possibilities is given to new employees by many stores. This gives the employee a definite goal toward which to work. It shows how success in one job will lead to another position. When employees know that they are being watched with a view to promotion, a strong incentive is furnished for each to do his best at his present job.

As one means of judging the fitness for promotion, the employees may be rated periodically. Just as a store takes inventory of its merchandise so should it take inventory of its personnel. In one store, every employee is rated for each of the following seven qualities: (1) accuracy; (2) cooperation; (3) industry; (4) initiative, (5) knowledge; (6) loyalty; (7) personality A rating is turned in each month by two people for each employee. The sales force is rated by the buyer and the section manager. The non-selling force is rated by the head of the department and one other. Such a rating scheme can be used not only for promotions but for salary increases for the same position.

An employee may be moved from one department to another as a form of promotion or to place him in line for later promotion. In some cases, such a change may be due to other reasons. Because of difficulty between an employee and his superior in the department, it may be necessary to make a change. If this

is due to personal friction, the employee should be transferred rather than dismissed. In other cases the employee might not fit in a certain department because of a lack of interest or qualifications or because of a physical handicap. If such an employee is discharged, not only is it an injustice to the employee, but it results in a loss to the store of the cost of breaking in that employee The personnel division should endeavor to find some other position in the store that will be more satisfactory to both parties Ordinarily the employee when transferred to another department will be more successful.

Training Given New Employees.—If a new employee is left to himself, he will, as the days go by, learn about the store, its policies, its organization, etc Acquiring knowledge in this way is a long-drawn-out process and may result in experiences that prove costly to the store. Therefore, the large stores give the new employees a short period of training to enable them to acquire the necessary information quickly.[1] This training seldom lasts over an hour each morning for a period of a week or 10 days. During the rest of the day the beginner is working at his new position Because the small store is unable to employ a person for this training work, it frequently does not have a well-planned training course for its new employees. Yet the smallest store will profit by some method of training, for the need for training exists in every store. It should plan to give the new employee all the information he needs. This can be done during the proprietor's or an older salesperson's spare time.

The object of this preliminary training given new employees is twofold First, it builds for him a picture of the store. Knowing in general its organization, policies, and rules, he is better able to adjust himself to them. The second phase of this training is to give him some information about the job he is to hold If the new employee is a salesperson, he will be told how to make out a sales slip properly and how to greet customers and will be given some information about the merchandise he is selling. Ordinarily as a part of this preliminary training the new employees are taken on a trip through the store. This not only gives them a better understanding of the various parts of the store but enables them to answer intelligently many questions asked by

[1] ROBINSON, O. PRESTON, and JAMES C. EDWARDS, "The Current Status of Retail Training," *Journal of Retailing*, October 1939, p. 69.

the customers concerning the location of different departments. The new employee at Gimbel Bros., Philadelphia, receives a letter from Arthur C. Kaufman, the executive head of the store, welcoming him to the store. Later on, he has personal talks with many of the employees to see how they are enjoying their work with the store.

Most stores use the sponsor system, or some variation of it. Each new employee is put in charge of one of the salespeople in the department who is qualified to help that person get a start. The sponsor sees that he is introduced to other members of the department, that he is making out his sales slips properly, that he is taught how to care for his stock, that he is learning the merchandise, and that he is acquiring the technique of selling.

For this extra work the sponsor is entitled to a reward This may be a stated sum for each employee whom the sponsor trains. In other stores, he is given credit during this period of training for the sales made by his understudy In departments in which each salesperson has a quota the sponsor may have his quota reduced when he is given a new employee to train.

One large department store created the position of service supervisor in order to better the service to the customers through the training of salespeople on the selling floor. This change is regarded by the store as a step forward in practical training on the selling floor in the place of theoretical training in classes. The use of service supervisors has led to the reduction of the learning period of salespeople and has made possible a reduction in the number of section managers. Despite the addition of service supervisors, the use of sponsors for new salespeople was continued; however, this continued use is under debate.

Job training for nonselling people such as elevator operators, deliverymen, stock people, and cashiers should be provided Ordinarily, someone who has become an expert at the work does the teaching Proper training is just as essential for nonselling employees as it is for the sales force. A poorly trained deliveryman will cause the store just as much loss of customers' good will as a poorly trained salesperson.

Store Manuals, Bulletins, and Films.—As an additional means of instructing the employees a store will provide them with one or more manuals. In many of the larger stores, these manuals are prepared by the store's personnel department to apply to

that particular store. Smaller stores cannot afford to do this, but they can make use of manuals prepared by different trade associations.

A system or organization manual will be given to all new employees. It outlines the organization of the store, tells in general the functions of the different divisions, and states those rules of the store which might affect the new employee, such as regulations concerning dress and store hours. It may also include a store directory.

Merchandise manuals are prepared for various departments. These include much of the information that a member of the department should know about the line of merchandise carried in that department. It will discuss qualities of the merchandise, selling points, uses to which that merchandise is put, and the care that it should be given. The story of the manufacturing process and the sources of the raw materials used may be given to help the reader get the complete story of his merchandise The most effective merchandise manual combines merchandise facts with an outline of a good selling technique for that merchandise.

Stock manuals are prepared by some stores for the different departments. These outline the arrangement of the stock and discuss its care. Various other manuals will take up the duties of other types of work and show the relationships with other parts of the store.

One difficulty in the preparation of such manuals is the fact that they quickly get out of date and need revision. If a manual is in loose-leaf form, it can more easily be kept up to date. Even then the manual is without value if it is not read. To a certain extent, these manuals seem to duplicate some of the oral instruction given the employee. Although that may be true, yet the two supplement each other. Combining both oral instructions and manuals has proved more effective than using either by itself. The R. H. White Company of Boston requires the new employee to study the training manual before beginning work. After at least three days of this study the new salesperson is given an examination on the manual in his training class.

are usually fairly short and are mimeographed because they are for current use only.

Stores are making increasing use of films for instructing their employees. These have been prepared, in most cases, by manufacturers. Thus, they are available to both small and large stores. The training departments of large stores make regular use of many of these films. The owner of the small store is missing a golden opportunity if he fails to use these free films. By writing to his trade association or to the manufacturers of well-known brands of goods, he can find out not only about these training films but about many leaflets and booklets that will be very helpful to his salespeople.

Additional Training.—After an employee has received initial training, his efforts to increase his competence in retail work should not cease In recognition of this the larger stores provide advance courses in many different lines rather than letting them sink or swim after the initial training period. With some stores, this is compulsory; with others, it is optional. Those that make it compulsory do so on the theory that all employees need the extra training, which is no doubt true However, it requires a certain amount of tact to get many of the older employees to recognize this sufficiently to be willing to take such training Those stores making it optional go on the theory that those who are not interested in bettering themselves of their own free will are not worthy of the course that is offered When the course is optional, the feeling should be developed that it is a real privilege to be permitted to enter it.

Advanced training in salesmanship is one of the advanced courses most frequently given. This training ordinarily consists of lectures, discussions, and demonstration sales. People from allied departments can usually be grouped for such training. With a few departments, such as the oriental-rug department, a special training class for a single department may be necessary

Other advanced training courses offered may include a study of color, design, style trends, textiles and nontextiles, business English, business mathematics, and accounting Training in fashion merchandising is badly needed in many stores selling merchandise that has considerable style element. Training the salespeople so that they understand the store's fashion program and the season's correlated ensembles and colors brings

about better interdepartmental coordination and enables the salesperson to advise customers regarding accessories and related merchandise in other departments

Special courses may be given to help prepare the employee for a position as assistant departmental manager in one of the non-selling departments or for assistant buyer in a selling department. Such training courses make it easier for the store to fill executive positions by promoting from within the ranks rather than by bringing someone from the outside. This training provides the material from which such promotions can be made. Unfortunately, not a great many stores have organized promotion training courses. Where it is possible, positions should be filled by promoting someone within the store.[1] The hope of such a promotion holds many capable employees and provides an extra incentive for them to do their best.[2]

Feeling that the buyers needed more intensive education, an Eastern store inaugurated a buyers' training course which lasted for six weeks and included the following subjects:

A consideration of the history of the store, its ideas, price lines, and price-lining procedure.

Mathematics and principles of operation, including the "six-month plan" and "open-to-buy" procedure.

The mathematics of mark-up, discounts, and markdown.

The mechanics and possibilities of unit control.

The handling of receiving, marking and stockkeeping, inventory shortages, the taking of markdowns, and care of merchandise.

Sales promotion, including advertising display, signs, and windows.

Special training is usually provided for the younger employees These young people, or "junior employees" as they are often called, are used by the store as messengers, mail clerks, stock clerks, markers, bundle wrappers, and inspectors. In many states the law requires all employees under sixteen to attend

[1] BASKIN, J. M., "Extension of Promotion from Within Marks McBain's Policy at Field's," *Women's Wear Daily*, Mar 25, 1940, p. 35.

[2] Mr Arthur C. Kaufman of Gimbel's in Philadelphia tells his employees, "I take pride in the fact that many of our buyers are employees who began at the bottom and were developed from within. They are invaluable to me because they are very familiar with the general policies of the store and what we are striving to accomplish. The more people I can develop and promote the better I like it, and the better coordinated organization I have "

continuation schools. The larger stores, which have their own educational departments, can conduct their own continuation classes. Other stores will have to send their junior employees outside the store for this training. In order to avoid the compulsory training of juniors, some stores will not employ a person until he has passed the age at which continuation training ceases to be compulsory.[1]

Even when such training is not compulsory, it still is desirable for employees in their teens In time, many of them will become adult employees of the store. Any junior training will give them better preparation for their later work in the store

The following extract from an advertisement of Marshall Field and Company shows how a store can look upon its younger employees and their training:

> There is a man in this business who clearly remembers selling goods to Mrs. Abraham Lincoln. There are also boys who started work only yesterday
>
> Every official began here as a boy or young man, and worked up Very few people in responsible positions have come to us from outside
>
> "What would you do," some one asked the late Marshall Field, "if one of your partners were to leave?"
>
> "Hire another office boy," he promptly replied
>
> It was his way of giving words to the same thought that was in the mind of Napoleon when he said every soldier of France carried a marshal's baton in his knapsack. It is a thought immutably written into this company's code
>
> "Every worker is entitled to an opportunity for self-improvement and advancement"
>
> No door is closed From among the young men and women who meet your wants here today will come the directors of the business tomorrow Youth surges forward toward a definite goal.

The training for junior employees is of two types There are courses similar to those given in full-time schools such as English, economics, commercial geography, hygiene, spelling, and bookkeeping Then there are those courses which are designed specifically to help them in their store work. Such training would include a study of store rules, promotional possibilities,

[1] Various state laws set a minimum age limit below which a young person cannot be employed.

store organization, local geography (for messengers), ticketing machines (for stock clerks), and personal appearance.

In addition to the types of additional training that have been discussed, many other forms are found in various stores. These miscellaneous forms may be an essential part of the store's permanent program of training, or they may be simply a temporary form, such as, for example, special training and instruction of the salespeople in preparation for a store-wide sale.

The method by which additional training is carried out varies according to such factors as the size of the store, the store's policies, and the type of training to be done. In the large store that has an educational department, much of the training will be given in regular classes conducted by that department. This method is used especially for any permanent training work that can be presented effectively by the group method; an example of this would be most of the continuation-training program.

In some stores the responsibility for much of the training is placed upon the buyers For example, in one store once a week the buyers give their salespeople instructions in new merchandise and fashion trends. In addition the buyers in the store have taken over many of the duties of the educational department which now works through them in a great deal of the sales training

In a great many cities the stores in cooperation with the school system are providing training for retailing that is financed under the George-Dean Act. The Federal government provides a large share of the expense of such training. As a rule, emphasis is put on retail salesmanship although other phases of retailing are studied, also. Where such training is supervised by people who are themselves well trained in the field, it should provide a real contribution to retailing education

Some stores have installed internal broadcasting systems which are used not only for making announcements to the public in the store but also for educational purposes In one store the radio system is used for educational purposes before the store opens and after it closes, giving vital messages to the store's employees in a way that is accurate and eliminates all the waste of time involved in calling them together in a special meeting.

Many other means may be used for carrying out additional training. Store manuals and house organs may be used to carry various types of information to the employees of the store. However, few stores put out really worthwhile house organs.

Safety and Health.—The sense of physical well-being that comes from working in a clean, well-lighted, well-heated, and properly ventilated building makes the store much more attractive to the employee The person in charge of safety and health work should study the working conditions to make sure that they are conducive to effective work Special arrangements should be made for employees who are compelled to work in drafts or at tasks that are especially tiring. The working conditions should be such as to reduce as much as possible the fatigue of the workers Many stores provide a 15-minute rest period both morning and afternoon. Rest rooms for employees should be adequate and easily accessible.

Many large stores maintain a small but well-equipped hospital in charge of a trained nurse or a physician. If a store does not have a full-time physician, one may come in daily for certain hours Some stores also employ a visiting nurse who may do much good in helping those employees who are absent from work with minor ailments, such as colds and sore throats Some stores have a dental clinic in connection with the hospital or have a working agreement with an outside dentist whereby employees may have emergency work done free and permanent work at a reasonable cost. A small store should provide for a means of giving first aid in emergency cases and may find it desirable to make arrangements with some physician to do such medical work as is required

Instruction in personal hygiene is sometimes given to store employees by lecture or through printed bulletins or house organs

Because an employee cafeteria or restaurant is so important in protecting the health, efficiency, and general morale of the employees, it is one of the first moves made by many stores toward taking care of their own employees.[1] Generally the cafeteria plan is used The lunchroom or restaurant is run on a

[1] "Better Provision for Dietary Needs," *Women's Wear Daily*, Jan. 27, 1941, p. 25.

cost basis, it being thus self-supporting from the standpoint of the store and at the same time the employee being thus enabled to get the food at cost.

Employee Service.—Employee services includes all activities directed toward the maintenance or improvement of the personal well-being of store employees. The services of a store must be properly presented to the employees, for there is a tendency for many employees to think of them as objectionable forms of charity The object of all employee services should be to develop a contented personnel and to create the feeling of good will between the store and the employee that is so essential to successful operation.

The employee services of different stores vary according to the need for such work and the store's attitude toward the well-being of its employees. A small store in a small community ordinarily does not need to carry on many of the activities that are an essential part of the welfare work of a large metropolitan department store. On the other hand, certain types of employee service, such as, for example, the provision of proper working conditions, are just as important in a small as in a large store. Some stores take a more progressive attitude toward the welfare of their employees than do others, and thus they carry on a larger program of welfare work.

The chief forms of employee services may be classified under the following heads.

1. To furnish recreation
2. To further education and create *esprit de corps*
3. To promote economic activities, such as insurance and mutual benefit.

Employee Relations.—One of the most important personnel problems confronting the retail organizations of the country today is the trend toward unionization.[1] Up until about 1935, little was heard of unions and collective bargaining in the retail field. Since that time, favorable legislation, both Federal and state, together with a more sympathetic attitude on the part of courts and labor boards have laid the groundwork for unions to develop in retailing. Both the American Federation of Labor (A.F of L.) and the Congress of Industrial Organizations (C.I.O.)

[1] Wise, Miriam Birge, and Jess P. Lacklen, Jr., "Unionization in the Retail Field," New York University School of Retailing, 1940.

have become active in organizing retail employees The movement started in chain stores and variety stores and has since moved into department stores and specialty stores until now it promises to touch all types of retail store.

The objectives of retail-store unions are: (1) to secure union recognition; (2) higher wages; (3) shorter hours; (4) provision for holidays and vacations; (5) job security; (6) some recognition of seniority in promotions and in reduction of personnel.

The retail union would like to secure a closed shop which would force the store to employ only people who belong to the union If this is unattainable, it would like to have a union shop which would let the store employ whom it pleased, the new employees being then required to join the union An open shop permits the store to hire as it pleases and lets the new employee decide whether or not he wants to join the union but recognizes the union as being the bargaining agent for its members.

As a rule, retail hours have been long, and so a reduction in the number of hours for employees is naturally one of the things sought by a retail union. However, during peak periods, longer hours may be approved The union feels that length of service should be considered as well as ability when promotions are being considered or when the number of employees is being reduced

Any study of unionization of retail employees involves a study of union leadership. Where the organizer or leader of the union looks upon the movement simply as a means of financial gain for himself, both the employees and the store management suffer. But where the leader has a sincere interest in improving the condition of the employees and has the ability to cooperate with the store's management, then the store's union deserves a friendly attitude on the part of the management.

In some cases, management and the union do not arrive at a common understanding, and a strike results Either further negotiation or arbitration can bring the strike to an end Public opinion often supports one side.

Recreation —Ordinarily, adjacent to the employees' restaurant is a recreation room or a number of such rooms; these provide a place for diversion or relaxation. Some stores have an auditorium or large room for dancing or other recreational activities Smoking rooms may also be provided. In some cases a roof

garden is provided for use by store employees. Frequently the organization of clubs and teams and the holding of parties, lectures, and concerts among employees provide a form of recreation that does much to build store morale and good fellowship among the employees. One store has a baseball team comprised entirely of members of the delivery department.

Recreational activity also includes the direction of vacations and the supervision of any summer camps or other vacation facilities provided by the store. One store in Pittsburgh maintains a camp of 130 acres near the Ohio River, about 15 miles from Pittsburgh. The camp is available to all the store's employees throughout the summer months and has overnight accommodations for 250 guests

Education.—Store libraries might be classed as an educational form of employee service. A library may serve either or both of two purposes. First, it may supply the technical literature of the trade, so that the store employees may have an opportunity to secure the latest information on retailing Secondly, it may furnish current popular magazines and books of the day. If used only for the second purpose, it might well be classified under the heading of recreation.

If properly used, a store paper, sometimes known as a "house organ," may be of great value in building up a strong store community. The old type of store paper was devoted mainly to inspirational subjects like loyalty and devotion and to selling talks. The new type is one that deals mainly with the interests of the store community in a humanized way. The editor of one department-store house organ says that their publication has been humanized, dynamized, and "Winchellized."

Economic Activities.—Many stores have definite plans for furthering the economic status of their employees. Uncertainty as to the future is often a factor that reduces the efficiency of the worker.

Many stores have adopted group life-insurance, group accident-and-health, and group hospitalization policies. By such a plan the employer may furnish protection to all the employees of the store under one blanket contract. The effectiveness of group insurance in retail stores depends to a great extent upon the manner of its introduction and installation. The plan must be sold to the employees as well as to the employer. The

employees should clearly be shown what they are receiving so that they will be impressed with its value

Compensation. Characteristics of a Compensation Plan.—The proper method of paying its employees is a problem in itself for the store Although the money wage is the most important factor, yet it must be remembered that it is not the only factor in a compensation plan. Pleasant working conditions, the working hours,[1] and the store's social-service program are also a part of the compensation that an employee of the store receives The money wage, however, remains the most important The store and the employee look at this wage from opposite angles. It is the tendency for the store to want to pay as little as possible; that is, to achieve a low sales cost, not a low wage scale, and for the employee to want to receive as much as possible. The problem is to find a satisfactory figure which will be just and fair to both sides

A good wage plan should have five characteristics It should be:

1. Satisfactory to the store
2. Satisfactory to the employee
3. Understood by the employee
4. Adjustable to changing conditions
5. An incentive to the employee

To be satisfactory to the store the wage paid must be in proportion to what is received The store desiring the best type of employee must give these employees the best compensation The store that is niggardly in its remuneration cannot hope to get and hold the highest type of employee. Although the wage plan is designed by the store to hold down expenses, yet at the same time it must be fair to the employees

The wages that a store feels it is justified in paying to its sales force can be figured on a selling-cost basis. The proportion of the total wages paid by a department to its sales will give the percentage of selling costs If a department employing six people at \$20 a week each has sales of \$2,400 a week, its selling cost is 5 per cent ($6 \times 20 \div 2{,}400 = 5$ per cent). In order to

[1] The tendency of stores to stay open longer hours is discussed in Leona Furstenberg, "Department-store Hours of Doing Business," *Journal of Retailing*, April, 1939, p. 33.

reach the department average, a saleswoman must sell $400 worth of merchandise a week

The selling-cost percentage differs considerably in different departments; this difference is due, to a considerable extent, to the unit value of the article sold. If the unit value is low, as in notions, the percentage of selling costs to sales is high When the selling-cost percentage is high, the wages paid the individual salesperson are usually low. If the selling-cost percentage is low, the wages paid the individual salesperson ordinarily are higher than those paid in the high-selling-cost departments

To be satisfactory to the employee, his wages must equal those ordinarily paid for his type of service. In other words, his wages must not fall below "the market" It has been said that his wages should insure the salesperson "a fair living wage." To do this the number of dollars in the wages must change from times of depression to times of prosperity This would mean changing the wages as the cost of living changed [1] Certain stores and certain types of store have been accused of paying their women employees a wage so low as not to be a fair living wage. Such a practice is socially undesirable.

Some wage plans are so complicated that the employee cannot understand them As a result, he does not know what he is going to receive or why he has received that which has been paid him. Any wage plan should be such that those who are being paid by it can understand it thoroughly Only as it is understood can it be a real incentive to the employees.

Because business conditions are altering constantly, the compensation plan should be sufficiently flexible so that it can be adjusted to such changes as costs of living or changing price levels.

The wage plan should provide an incentive for all employees. That, as has been said, is one reason why it must be understood by the employee. If the amount of salary or the size of the commission check seems to have a relation to what the employee is giving to the store, then such a wage plan provides the desired incentive. When the employee sees himself rewarded as he makes himself more valuable to the store, he has an incentive to better himself.

[1] "Suggests Wage Adjustments by 'Cost of Living Bonus,'" *Women's Wear Daily*, Feb. 14, 1941, p 35.

Types of Compensation Plan.—There are many different kinds of compensation, or wage, plan used by stores in paying their employees Practically all these plans can be grouped into five main types; however, some of them show minor variations or combinations of the features of these five types The five types are. (1) straight salary; (2) straight commission; (3) salary plus commission; (4) salary plus a bonus; (5) profit sharing.

By far the greatest number of stores pay their employees a straight salary. This is easily understood and easy to compute, and it is commonly used. On the other hand, it is not flexible and does not always succeed in supplying immediate incentive to the employee. This inflexibility of the straight-salary plan leads to inequalities of wage payment both among different departments and among employees in the same department. There is a large difference in both the quantity and quality of work turned out by different people engaged in the same tasks. Unless salaries are adjusted frequently, the wages paid are not in proportion to the services rendered by the employees.

The salary plan of payment is used by most stores where the selling involves more than the average amount of service. The straight-salaried employee is willing to spend his time with a customer no matter how long she takes in deciding what to buy. If he were being paid by a straight commission on sales, he would not be willing to do this, for it would seem to him to be unproductive time. The straight-salary plan is found commonly, also, in just the opposite type of store—the variety store.

The straight-commission form of payment is not commonly used. Paying the salesman by giving him a percentage of his total sales has two chief disadvantages. First, it offers the employee an uncertain amount. The feeling of many merchants on this point is expressed by the statement of an executive who says, "A salesman cannot do his work justice if he is worrying about meeting his rent." During dull periods the compensation will be very little, but will be quite large during rush times As a means of tiding the employee over these dull periods, he may be given a drawing account. This drawing account will be based on the employee's past earning record or, if he is a new employee, on his probable earning power Periodically, he will be paid the difference between what he has drawn already and the total

amount of his commissions. If he has drawn more than his commissions amount to, the store may carry the amount he is overdrawn into the next period as a debit or it may simply reduce the amount of that employee's drawing account for the coming period In other cases, it may seem best to discharge the employee. If deficits are carried over into the next period and these cumulative deficits become large, they may cause a big turnover of selling help.

The second great disadvantage of the straight-commission plan lies in the overemphasis put on volume of sales. Because the salesperson is paid directly according to his sales volume, there is a strong incentive to be too insistent that the customer buy and to get her to overbuy. Other objections that arise out of the overemphasis on sales volume are that salespeople may drop shoppers who are slow in making up their minds, that they may give less attention to keeping their stock in order, and that the tendency toward high-pressure selling results in many returns of merchandise. Some of these objections are questioned by certain retailers. For example, one store official says that in actual practice a commission plan does not encourage high-pressure selling that results in many returns, because salespeople know that they are paid on net sales.

The salary plus a commission is second to the straight-salary basis in prevalence as a method of paying retail employees. It is an attempt to combine the advantages of the straight-salary and the straight-commission plans. The employee is paid a regular salary and in addition a commission on sales. Three different methods are used for paying this commission One method is to pay one rate of commission on all sales in addition to the salary. The second method is to pay two rates of commission. A quota is set for each salesperson. He receives a small commission, usually less than 1 per cent, on all sales up to the quota. After that is reached, a larger percentage is paid on all additional sales.

The third method also uses a quota but pays the salesperson a commission only on sales in excess of that quota. The quota set should bear a relation to the selling costs of the department. Dividing the total sales in a department over several years by the total-sales salaries paid in that department during the same years gives the average cost of selling. Where this is done for

each month of the year, the average monthly cost of selling is secured

A salesman who has a salary of $80 a month would be given a sales quota of $1,600 when the selling cost for that month was 5 per cent That is, the salesperson has to sell $1,600 worth of merchandise before he has actually earned the salary that the store pays him Having earned that salary, he is entitled to extra compensation for additional sales. If he is given 3 per cent on all sales over his quota and had sales during the month of $2,000, his pay for the month would be $92 ($80 regular salary plus $12 commission on the $400 sales above his quota). When a salesman receives a salary increase, it likewise is based on the cost of selling and thus requires a higher quota

The salary plus a commission enables the employee to know beforehand the minimum that he will receive for the month; therefore, he has this assurance in planning his personal budget of expenses. It also gives him a direct incentive to increase his sales volume, for he can enlarge his compensation by exceeding his sales quota.

A salary plus a bonus is used by some stores. In addition to the regular salary, a bonus is given periodically, usually every three months, every six months, or every year. This may be paid when the individual, the department, or the store has exceeded a set quota. In other cases the amount depends on the length of service or the degree of efficiency of the employee. One weakness of the bonus plan is that the employee may consider the bonus as an outright gift rather than a reward based on his own personal efforts. When it is paid annually or even semiannually, the interval between payments is so long that the employee may lose interest. In such a case, it does not provide the incentive it should.[1]

Profit sharing is employed by a few stores. This requires giving the employees in addition to their salaries a part of the net profits of the store. The sum to be shared with the employees is determined by the store and then divided among the employees according to various plans. The two most common plans are based on the salary or the length of time the employee has been with the store.

[1] A discussion of bonus plans for retail salespeople will be found in *The Sales Manager's Handbook*, pp. 370–372, Dartnell Corporation.

Profit sharing usually fails to differentiate between the good and the poor employee. Thus, it does not supply the stimulation that it should Profit sharing among the higher executives will supply a greater stimulus to them, for they can see a closer relation between their efforts and the store's profits.

The usual method for paying all nonselling employees, except buying and merchandising executives, is the straight-salary plan. In some instances a bonus is given in addition to the salary if the season has been a profitable one for the store.[1]

Special Incentives.—In addition to the regular compensation, certain special incentives may be offered to employees as a stimulation to extra effort One form of special incentive is the use of "P.M.'s" (premium money), or "stims" or "spiffs" as they are called by some stores. A P.M is a special amount of money that the store pays a salesperson in addition to his regular compensation as a reward for having sold some particular piece of merchandise For example, if a store desires to clear out a certain lot of overcoats, it may give the salesperson for each overcoat he sells $1 in addition to his usual compensation. P.M.'s may be used for many purposes: to "push" first-class merchandise that for some reason has not been selling well; to unload excessive stock in certain lines; to emphasize the sale of high-priced merchandise; to rid the store of damaged goods; to get better action on goods priced at a high markup; and to stress the sale of the store's own brand of merchandise.

Some stores claim that a P.M. is more effective in moving merchandise than is a markdown of a much greater amount. However, many stores question the desirability of using P M.'s. They feel that the P.M. plan induces the salespeople to put their own interests ahead of the customer's and that as a result the salesperson may induce the customer to buy articles which may not be to her best interests. Buyers have been accused of covering up poor buys by offering P.M.'s to their sales force as an inducement to put special selling emphasis on this merchandise.

Other forms of special incentives are used by some stores "Points" spur the girls of the Interstate Department Stores to put more effort in the selling of the higher profit lines. The point is a merit mark, and in each department the salesperson

[1] WINGATE, JOHN W., *Manual of Retail Terms*, p. 366, Prentice-Hall, Inc., 1931

acquiring the greatest number of them wins a cash prize. The merchandise is graded from 1 to 5 points, according to the amount of profit in it. A large department store in New York City pays extra money to store workers who make practical suggestions for any improvements in store, merchandise, or service. In one month, 63 suggestions were considered, and 59 prizes were awarded.

Many stores grant to their employees a discount on goods purchased by them in the store. Not only does this increase the store's sales volume and act as an indirect wage to the employees, but in addition it makes a good impression on the public if the employees of the store are known to think highly enough of the store's merchandise to want to buy it for themselves. A study of employee discounts in Ohio department and dry-goods stores, made by The Ohio State University Bureau of Business Research, showed that discounts granted on employees' purchases tend to center chiefly around 10, 15, and 20 per cent from the retail price, with a sale price of cost plus 10 per cent appearing most frequently among the smaller stores granting price concessions of that type.[1] In the study, which included 172 stores, a wide variety of practice was encountered both as to the rate and the extent of the discount privilege.

Personnel Research.—In a field as recently developed as retail personnel and with problems so varied and so changing, there is great need for research. Instead of relying on rule-of-thumb methods or doing a thing in a certain way just because it has always been done that way the progressive personnel manager will want to study his problems and try to find scientific answers to these questions. Research, in itself, deserves to be classed as a separate personnel activity.

Among the specific fields of personnel research are (1) job analysis and job description, (2) job classification; (3) job evaluation; (4) turnover studies; (5) designing tests and rating scales; (6) various analytical and statistical studies.

Most large stores have mutual-benefit associations which give financial aid in case of sickness or death and in some cases other forms of relief. The membership in such associations is

[1] CHUTE, A. H., *Employee Discounts and Vacations in Ohio Department and Dry Goods Stores*, p. 51, Bureau of Business Research, The Ohio State University, 1932.

usually compulsory, with monthly or weekly dues assessed according to the amount of salary received These associations ordinarily are incorporated and are operated by the employees themselves

In some instances the store itself may provide various systems of relief. For example, the three Richman brothers, Nathan G., Charles L., and Henry C., directing heads of the Richman Brothers Company of Cleveland, marked the fifty-fourth anniversary of the firm by announcing that they would set aside 6,000 shares of stock in a foundation, the dividends from which were to be devoted to helping workers and ex-workers (either from their stores or factories) who may at any time be in distress from reasons beyond their control. "This will be known as the Richman Brothers Foundation, will be under the direction of a board of trustees appointed by executives and employees of the Richman organization, and will operate as a permanent institution for the benefit of the aged, sick, disabled and needy."

A number of stores operate employees' savings and loan associations of various types The president of one such association points out that the purpose of a credit union is threefold: (1) It promotes thrift among members. (2) It provides the members with a source of credit at a reasonable rate of interest (3) It trains and educates them in the handling and control of money.[1]

The pensioning of employees who have grown old in the service of the store is carried out in some large retail organizations. The pension system is usually adopted as a part of the work of the mutual-benefit association of the store.

[1] A number of examples of store credit unions is found in "Keep Your Employees Happy—Start a Store Credit Union." *Women's Wear Daily*, May 9, 1941, p. 43

INDEX